AR57

FOUR SEASONS

Hotels and Resorts

1996 ANNUAL REPORT

Four Seasons Hotels Inc. operates the world's largest network of five-star hotels and resorts: 38 medium-sized urban hotels and resorts within major business centres and key leisure destinations in 16 countries containing approximately 11,900 rooms. Another 14 properties are under construction or development in six additional countries. Four Seasons leases three hotels and owns a minority equity interest in, or has advances to, eight properties under its management.

Generally identified by the brand names Four Seasons or Regent, most of these properties occupy locations that would be extremely difficult to duplicate, in many of the world's key business centres and exclusive resort destinations. Both brands are also widely recognized for the exceptional quality of their guest facilities, service and atmosphere. For reasons such as these, hotels and resorts managed by Four Seasons have been named more frequently than any other competitor among the world's best hotels and travel experiences by *Institutional Investor*, *Condé Nast Traveler* and others.

Four Seasons' operations are supported by the efforts of a fully-integrated sales and marketing organization, including 13 worldwide sales offices and a global reservation system that permits international coverage and considerable cross-selling of both brands.

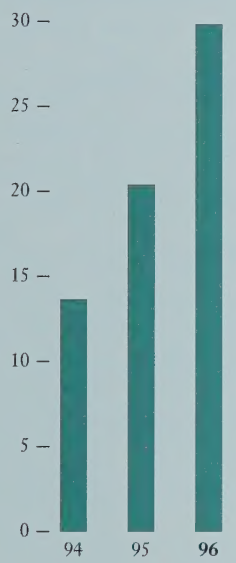
With a strategy to offer business and leisure travellers the finest hotel and resort accommodation in each destination it serves, Four Seasons will pursue growth opportunities in major international centres and resort destinations to complement its market leadership in North America and Asia, its profile in Australasia and its growing presence in Europe.

Contents

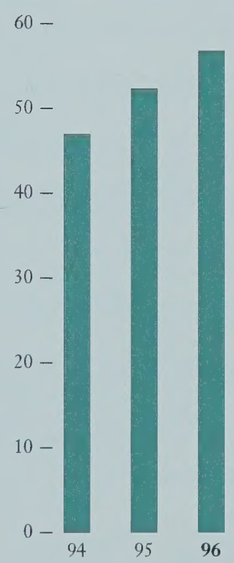
Four Seasons
Hotels and Resorts

(in millions of dollars except per share amounts)	**1996**	1995	1994
Revenues under management	**$ 1,901.5**	$ 1,837.9	$ 1,698.2
EBITDA[1]	**$ 64.3**	$ 66.7	$ 60.0
Normalized net earnings[2]	**$ 29.9**	$ 20.4	$ 13.6
Normalized earnings per share[2]	**$ 1.04**	$ 0.72	$ 0.49
Cash provided by operations	**$ 43.7**	$ 38.7	$ 44.8
Debt, net of cash	**$ 97.6[3]**	$ 230.9	$ 299.2
EBITDA[1] coverage of net interest costs	**3.4**	2.6	2.2

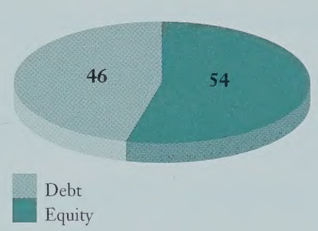
Normalized
Net Earnings[2]
($ millions)



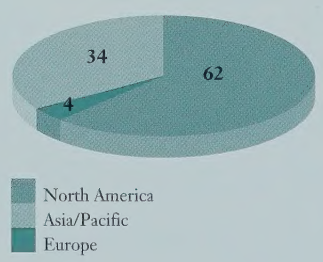
Cash Flow from Hotel
Management Operations
($ millions)



Debt to Equity[3]
(percent)



Global Diversification
of 1996 Fee Revenues
(percent)



1 Earnings before other operating items, interest and taxes, which represents one alternative to measure earnings.

2 Excludes accounting provision taken in 1995 for certain leasehold and other real estate interests and costs associated with the sale of shares in 1994.

3 Pro-forma to reflect the effect of an equity issuance by FSHI and the closing of the sale of the Four Seasons Hotel Toronto, completed during the first quarter of 1997.

Four Seasons holds a unique position in the international hotel industry. With a renowned global brand name, an unmatched international presence, a powerful employee service culture, strong operating fundamentals and several special strategic relationships to fuel future growth, Four Seasons has a significant competitive advantage that should ensure continued success in the years ahead.

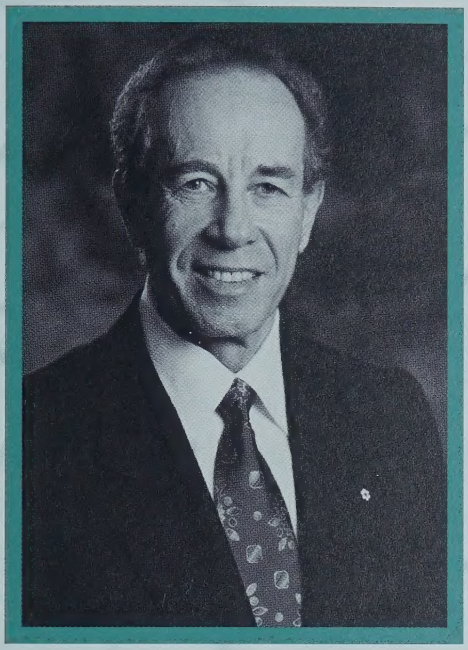
Leading Market Position

Ten years ago, our medium term objective was to make Four Seasons as well known for what it represents in the luxury segment of the hotel industry as other major hotel companies were for what they represented in their particular market sector. Today, we have achieved this objective, as our global brand name has come to define the highest levels of quality and service excellence in the industry.

Four Seasons' international portfolio of luxury hotels and resorts includes many of the world's finest properties—irreplaceable buildings in excellent locations. Within the walls of these impressive hotels, Four Seasons has created a powerful employee service culture—one which has proven its ability to work effectively in different countries around the world. At the same time, we have developed the largest group of highly skilled senior hotel managers in our industry segment, one that is strongly motivated and well-equipped to maintain and strengthen our valuable brand name and service culture as we continue to expand globally.

Strong Financial Position

In terms of our financial results, Four Seasons' record continues to strengthen. Hotels and resorts under our management are now among the best performing luxury properties in the world. Gross operating profit improvements and double-digit yield growth in the past four consecutive years have resulted in significant fee revenue increases and an overall earnings improvement for Four Seasons. As demand continues to outpace supply in virtually all of our major markets, we expect this growth trend to continue. Equally important, our balance sheet is now the strongest it has ever been. The completion of the asset disposition programme, combined with a highly successful equity offering in February of 1997, provides Four Seasons with the necessary financial strength for our next period of growth.



Strategic Relationships

Four Seasons has established strong and enduring relationships with several strategic investment partners. Access to this critical development capital should help to ensure the fulfillment of our long-term growth objectives in the years ahead. His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud of Saudi Arabia is the most significant of these investors. Since becoming a shareholder of Four Seasons Hotels Inc. in 1994, Prince Alwaleed has invested or agreed to invest in more than ten projects in various stages of construction and development.

Sustainable Competitive Advantage

All of these factors have created and will help to sustain the significant competitive advantage that Four Seasons has now achieved, and provide a solid foundation as we begin our next era of growth. Our hotel expansion programme will be aggressive but focused, leveraging our management expertise and the value inherent in the Four Seasons brand name. New hotels and resorts under construction and development will continue to expand the reach of Four Seasons in the Middle East, Asia, India, North and South America, and Europe. At the same time, we will continue to strive for even greater excellence in our existing hotels.

Important new initiatives which build on the value of our brand recognition, such as luxury vacation ownership and the expansion of the Regent brand, are also being undertaken in ways that are compatible with our existing strengths and current strategic focus. Four Seasons' entry into the luxury vacation ownership business is an excellent opportunity to participate in what has become the fastest growing segment of the hospitality industry today. As significantly, our joint venture with the Carlson Companies of Minneapolis should allow us to capitalize on the inherent value of the Regent brand name. Through an aggressive programme to develop franchise and management agreements for existing unbranded and new luxury hotels around the world, Carlson plans to more than double the size of the Regent chain over the next two to three years. Four Seasons expects to receive a significant stream of fee revenue to be generated by both these high margin businesses within this same period.

FUTURE OUTLOOK

Overall, Four Seasons has achieved a leading market position in the luxury hotel industry. With a global brand name, one of the world's most impressive collections of luxury hotel properties, and approximately 21,000 experienced, loyal and highly motivated employees worldwide, Four Seasons' *people* and *product* combine to form an exceptional asset, one that is virtually impossible to duplicate.

Looking forward, we believe that this competitive advantage can be sustained and enhanced, allowing Four Seasons to be included in a list of the world's most enduring brand names. We believe that the strengthening of our balance sheet combined with high operating margins and the stability of our management business, has set the stage for continued growth through normal economic cycles. We have a rare opportunity to control Four Seasons' destiny and ensure our continued success in the years ahead, all with a view to enhancing long-term shareholder value.

ISADORE SHARP
Chairman and Chief Executive Officer

IN 1996, FOUR SEASONS CONTINUED TO ACHIEVE STRONG FINANCIAL RESULTS IN ITS OPERATING BUSINESS, COMPLETED THE DEBT REDUCTION PROGRAMME WHICH BEGAN IN 1993, AND FURTHERED ITS STRATEGY OF LEVERAGING AND ENHANCING THE VALUE OF ITS GLOBAL BRAND NAME THROUGH FOCUSED INTERNATIONAL EXPANSION.

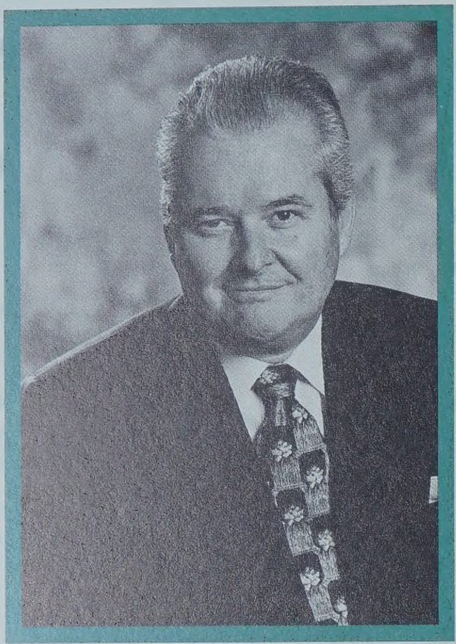
FINANCIAL RESULTS

In 1996, net earnings were $29.9 million ($1.04 per share), an increase of 46% over normalized net earnings* in 1995, reflecting continued growth in Four Seasons' hotel management business and lower interest costs from declining debt levels and lower interest rates. We continue to achieve high margins on our management business. Our objective is to increase the profit margin to 60% in 1997, and to enhance this level further in the years ahead, primarily as a result of the expected growth in higher margin revenue areas, such as luxury vacation ownership and the Regent transaction with Carlson.

During the year, virtually all hotels under Four Seasons' management realized revenue and profitability improvements. REVPAR (average room revenue per available room) at core hotels (hotels managed by Four Seasons during all of both 1996 and 1995) increased by approximately 12% over 1995 levels. This top-line growth translated into enhanced hotel room profitability as well. In 1996, the gross operating profit margin (gross operating profit is the base upon which certain of Four Seasons' incentive fees are calculated) of the same group of managed hotels increased from approximately 30% of total hotel revenues in 1995 to approximately 33% in 1996. As a result of the increases in REVPAR and gross operating profit of the core hotels, the Corporation's total base and incentive fees from core hotels increased in 1996 by approximately 13% over 1995.

Total fee revenue from our management business increased in 1996 compared to 1995, tempered only by the planned loss of certain non-strategic management contracts in connection with asset sales and restructurings. Further growth in hotel revenue is expected this year, primarily due to continued increasing demand in most of the Corporation's markets where no material increases in supply are expected in the near future. In addition, fee revenues from recently opened properties in Berlin, Istanbul and Kona (Hawaii), and the addition of Aviara (California), Sayan (Bali), Goa (India),

* Normalizing net earnings excludes the accounting provision of $95 million taken in 1995 for certain leasehold and other real estate interests.



Atlanta, and the Hotel George V in Paris in 1997, should result in further increases in Four Seasons' fee revenues and profitability levels in 1997.

As the global network of Four Seasons hotels has grown, the sources of the Corporation's profits have also changed. In 1996, approximately 87% of total earnings before other operating items were generated by hotel management operations, 44% of which came from operations outside North America. This geographic diversification is expected to increase further as the expansion programme continues, making Four Seasons less sensitive to economic cycles in any one region of the world.

IMPROVED BALANCE SHEET STRENGTH

During the year, Four Seasons completed the asset disposition programme that it began in 1993, which resulted in the sale of 14 properties, including the sale of its interests in the Inn on the Park in Toronto, the Four Seasons Hotel in Toronto and the Four Seasons Resort in Nevis in 1996. Four Seasons retained management of the latter two hotels under enhanced long-term contracts. Four Seasons is now primarily a management company; however, we have an ownership interest in, or have advances to, 11 of the 38 hotels and resorts currently under management, including three hotels in which we have a 100% leasehold interest, the Four Seasons hotels in Vancouver and Berlin and The Pierre in New York.

To strengthen the balance sheet further and broaden our international shareholder base, Four Seasons Hotels Inc. completed a $122 million equity offering and a listing on the New York Stock Exchange in February of 1997. The proceeds of the offering were used to repay corporate debt and to fund loans the Corporation has made or will make in connection with the expected acquisition of the long-term management rights for the Four Seasons Hotel (formerly The Grand Hotel) in Atlanta and the Hotel George V in Paris. Four Seasons now has full availability under its US$100 million bank operating facilities which, together with operating cash flow, can be used to fund future growth opportunities.

BRAND AWARENESS

In 1996, Four Seasons hotels continued to dominate "top of mind" awareness surveys and consumer recognition awards. For several consecutive years, more Four Seasons and Regent hotels have been

ranked among the world's finest than any other hotel chain by leading industry surveys such as *Institutional Investor, AAA Five Diamond,* and *Condé Nast Traveler's Readers Choice Awards*. Recently opened hotels and resorts hold great promise for continuing this trend.

In September of last year, we opened three spectacular new properties—the Four Seasons Hotel Berlin, the Four Seasons Hotel Istanbul and the Four Seasons Resort in Kona, Hawaii—all to immediate critical acclaim, proving once again our ability to undertake aggressive and global growth in a manner which enhances Four Seasons' current market position.

Expansion Opportunities

The focus of Four Seasons' future growth will not change. We recently assumed management of the Four Seasons Hotel in Atlanta and are actively working on a transition programme to refurbish and reposition the Hotel George V in Paris, which will become a cornerstone of Four Seasons' European collection. Both of these impressive hotels fill strategic positions in our urban portfolio, and are expected to contribute immediately to fee revenue in 1997.

With 14 projects in the advanced stages of construction and development, and over 30 others in active negotiation, we expect to more than double the size of the Four Seasons' portfolio of managed hotels in the next ten years. Many of the new developments will also contain luxury vacation ownership projects and branded residential apartments or villas, which are expected to increase both the volume and profit margin of fees we will earn from these mixed-use projects. As well, the Corporation's share of revenue to be derived from the expansion of the Regent chain of hotels by Carlson will further enhance the earnings outlook for Four Seasons in a manner that is purely incremental to our basic growth target of adding three to five hotels to the portfolio each year.

In summary, the fundamentals of Four Seasons' core operating business are excellent, thanks in large measure to the efforts of our loyal and dedicated employees who are the foundation of Four Seasons' achievements today. With the travel industry continuing to grow at record rates, all of us look forward to continued success in the years ahead.

JOHN SHARPE
President and Chief Operating Officer

FOUR SEASONS HOTELS AND RESORTS ARE WELL LOCATED IN KEY BUSINESS CENTRES AND LEISURE DESTINATIONS AROUND THE WORLD. THESE HOTELS AND RESORTS ARE SUPPORTED BY A FULLY INTEGRATED GLOBAL SALES AND RESERVATION SYSTEM THAT PROVIDES INTERNATIONAL COVERAGE.


London
Berlin
Paris
Milan
Istanbul
Amman
Cairo
Cairo
Riyadh
Bombay
Goa
Bangalore
Chiang Mai
Bangkok
Kuala Lumpur
Singapore
Singapore
Jakarta
Bali at Jimbaran Bay
Bali at Sayan
Hong Kong
Taipei
Tokyo
Sydney

Annual Information Form

Consolidated Financial Statements

BUSINESS OF FOUR SEASONS

Four Seasons Hotels Inc.[1] was incorporated under the *Business Corporations Act* (Ontario) on January 6, 1978.[2] FSHI's registered and principal office is located at 1165 Leslie Street, Toronto, Ontario M3C 2K8. The Limited Voting Shares of FSHI are listed on The Toronto Stock Exchange, the Montreal Exchange and the New York Stock Exchange under the symbols FSH, FSH and FS, respectively.

Four Seasons is one of the world's leading managers of luxury hotels and resorts. Four Seasons manages 38 luxury urban and resort hotel properties comprising approximately 11,900 guest rooms, primarily under the Four Seasons and Regent brand names, in principal cities and resort destinations in 16 countries in North America, Europe, Asia, Australia, and the Caribbean. In addition, 14 urban hotels and resorts are currently under construction or development in a further six countries around the world. (A chart depicting the urban and resort hotels managed by Four Seasons is set out on pages 18 and 19.)

Four Seasons earns revenue from both hotel management and hotel ownership operations. The Corporation recently completed an asset disposition programme initiated in 1993 and is now principally a hotel management company. In contrast to more volatile hotel ownership, hotel management operations tend to generate relatively stable earnings and cash flow for the Corporation and should provide a more solid platform for Four Seasons' future growth.

Under its management agreements, Four Seasons generally supervises all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons typically receives a base fee calculated as a percentage of gross revenues of the hotel. In addition, Four Seasons may receive incentive fees based on the operating performance of the hotel.[3]

FORWARD-LOOKING STATEMENTS

When used in this Annual Information Form, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated or implied, including: competition within each of the Corporation's business segments, the balance between supply of and demand for hotel rooms and vacation ownership units, the Corporation's continued ability to obtain new operating contracts on advantageous terms, the Corporation's relations with current and potential hotel owners and clients, the effect of international, national and regional economic conditions and the availability of capital to fund further investments in the Corporation's businesses. Given these uncertainties, readers are cautioned not to place undue reliance on these statements. The Corporation also undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

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1 "FSHI" means Four Seasons Hotels Inc. "Four Seasons" or the "Corporation" means, collectively, FSHI and all its subsidiaries, including Four Seasons Hotels Limited ("FSHL") and Regent International Hotels Limited ("Regent").

2 The articles of FSHI were restated in 1986 to consolidate prior amendments and were amended in 1989 to subdivide each Subordinate Voting Share and each Multiple Voting Share on a 2:1 basis and to create an unlimited number of special shares designated as First Preference Shares and Second Preference Shares. In 1996 the articles were further amended to redesignate the Subordinate Voting Shares as Limited Voting Shares and to create 4,171,924 special shares designated as Variable Multiple Voting Shares, which replaced and have substantially the same rights, privileges, restrictions and conditions as did the Multiple Voting Shares, except that the number of votes per Variable Multiple Voting Share generally increases as Limited Voting Shares are issued and dividends on the Variable Multiple Voting Shares will be in an amount per share equal to 50% of the dividends per Limited Voting Share.

3 See "HOTEL MANAGEMENT OPERATIONS" beginning on page 20.

Four Seasons continues to acquire minority interests in properties that it manages where necessary to obtain new management agreements and when the overall economic return to Four Seasons justifies the investment. However, the Corporation generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its equity interests separately from its management interests so as to enable it to dispose of equity ownership interests as sales opportunities arise, without affecting its management interests.

Four Seasons holds an ownership interest in, or has advances to, 11 of the 38 hotels and resorts currently under management. Four Seasons' significant ownership interests are: a 100% leasehold interest in each of the Four Seasons Hotel Berlin, the Four Seasons Hotel Vancouver and The Pierre in New York, a 25% leasehold interest in The Regent Hong Kong and a 25% investment in The Ritz-Carlton Hotel Chicago. The Corporation received a secured cash flow bond in connection with the sale of the Four Seasons Hotel London in 1995 and is expected to make a material advance in connection with the Hotel George V in Paris. [4]

Competitive Strengths

The hotel industry is highly competitive. The Corporation believes that it has several distinguishing competitive strengths, including:

Strong Brand Recognition

Four Seasons hotels and resorts are widely recognized for the exceptional quality of their guest facilities, service and atmosphere, and have been named more frequently than any other competitor among the world's best hotels and travel experiences by *Institutional Investor*, *Condé Nast Traveler*, *AAA Five Diamond* and others. The Corporation believes that its brand name recognition cannot easily be replicated by competitors, as it is dependent upon the establishment of a global chain of unique properties of the highest quality.

Superior Hotel Operating Results

Four Seasons generally has average room revenue per available room ("REVPAR" or "yield") and operating profit margins for hotels under its management above the average achieved in the luxury segment of the lodging industry. Owners and developers of luxury hotels worldwide recognize the economic benefits of this reputation.

Global Presence

Four Seasons manages a global portfolio of 38 luxury urban and resort hotels in 16 countries. Fourteen additional properties are under construction or development in a further six countries. Urban hotels managed by Four Seasons are located in major international financial centres, such as London, New York, Chicago, Washington, Los Angeles, Toronto, Milan, Tokyo, Singapore, Hong Kong and Sydney, as well as emerging international markets, such as Berlin, Jakarta, Kuala Lumpur and Mexico City. In addition, Four Seasons manages resorts in world class destinations, such as California, Hawaii, Nevis and Bali. Four Seasons anticipates that it will continue to expand in urban and resort destinations where consumer demand warrants a luxury property. In 1996, approximately 62%, 34%, and 4% of the Corporation's consolidated revenues were derived from hotels

4 See "HOTEL OWNERSHIP OPERATIONS" beginning on page 23.

and resorts in North America, Asia/Pacific and Europe, respectively. Four Seasons maintains a fully-integrated global reservation system that provides international coverage.

Hotel Management Focus

As a result of an extensive asset disposition programme, Four Seasons is now principally a global hotel management company. Although Four Seasons will continue to make loans or minority investments to secure long-term management contracts, these investments will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment. Management agreements for the hotels and resorts managed by the Corporation generally are long term, having an average remaining term of approximately 58 years for Four Seasons hotels and approximately 18 years for Regent hotels. These agreements entitle Four Seasons to earn base fees, as well as a range of fees for pre-opening development, purchasing, marketing and reservation services. The Corporation has the ability to participate through incentive fees at 33 hotels, which generally are based on operating profits of the hotel. In 1996, Four Seasons received incentive fees from 23 of the hotels and resorts under its management. During the same period, 29 of the hotels and resorts under its management each generated over $1.0 million annually in base and incentive fees and the average base and incentive fees earned were $1.8 million per hotel or resort. In certain cases, Four Seasons participates in the hotels' operating profits through its ownership interests in the hotels.

Strategic Relationships

Strategic relationships with investors are an important source of future development opportunities and financing for the expansion of Four Seasons' hotel management operations. Four Seasons has established relationships with numerous institutional and private equity sources that invest in and develop luxury hotel properties. Several of the existing owners have an ownership interest in more than one hotel or resort, including two owners who have an interest in five hotels each. In addition, in 1994 Kingdom Investments Inc. ("Kingdom"), a company controlled by His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud, purchased a significant minority position in FSHI. Since purchasing its interest in FSHI, Kingdom and its affiliates have acquired a 50% interest in the Four Seasons Hotel London, have provided a portion of the capital to complete construction of the Four Seasons Resort in Aviara and have purchased the Hotel George V in Paris, which Four Seasons expects to manage following an extensive renovation programme. Kingdom has invested or will invest in a number of additional properties under various stages of development that will be managed under the Four Seasons brand name, such as the Four Seasons hotels in Cairo, Amman and Riyadh.

Strong Management Team

Four Seasons' corporate executive management team consists of 11 individuals who are responsible for the global strategic direction of the Corporation and who have an average of 16 years of experience with Four Seasons. This team is supported by 15 corporate vice presidents, who are responsible for various aspects of the Corporation's daily operations, as well as by 38 general managers, who together have an average of approximately 12 years of experience with Four Seasons. It is a fundamental strategy of Four Seasons to develop its senior management team from within to ensure consistency of the service culture and work ethic.

Strong Competitive Position

The Corporation believes that its competitive position is strengthened by the significant impediments to entry into the luxury segment of the hotel management business. Those impediments include the time and resources required to establish a well recognized luxury brand name and to obtain management contracts for luxury properties in key locations in strategic markets worldwide. The Corporation also believes that it has developed a unique service culture and depth of management expertise over its 35 year history that would be difficult to replicate.

Four Seasons
REVPAR Premium

Business and Growth Strategy

The business strategy of Four Seasons is to continue to enhance its industry position and overall profitability through a focused international expansion programme that capitalizes on the strengths of its core hotel management operations and the global value of its brand names. In 1996, revenue generated by the hotels and resorts managed by Four Seasons exceeded $1.9 billion. The Corporation's consolidated revenues from hotel management and hotel ownership from these properties in 1996 was $120.7 million. From 1992 through 1996, the Corporation has increased its fee revenue from hotel management operations from $42.5 million to $94.7 million, a 22.2% compounded annual rate of growth. Over this period, the Corporation increased its hotel management earnings at a 31.6% compounded annual rate of growth from $18.6 million in 1992 to $55.7 million in 1996. In this period, the Corporation's profit margin from hotel management operations increased from 44% to 59%.

The Corporation believes that the strength of its brand names, its global marketing presence and its operational expertise result in yield premiums and strong operating profitability for luxury hotels under its management, providing Four Seasons with a competitive advantage in obtaining new management contracts worldwide. REVPAR for Stabilized Hotels[5] worldwide and in North America during 1995, the most recent year for which comparable data is available, was $200 and $208, respectively, 48.2% and 81.8% higher than the REVPAR of the worldwide and North American luxury segments, respectively, as compiled by Horwath International.[6]

The Corporation's growth strategy is to utilize its competitive strengths to increase earnings, cash flow, hotel owners' returns and shareholder value by continuing to improve the performance of its existing hotel portfolio, by generating profitable growth through the acquisition of new management contracts and by capitalizing on opportunities to leverage its luxury brand names.

5 The term "Stabilized Hotels" means hotels and resorts that were fully open under Four Seasons management throughout a particular year and during the last quarter of the prior year. Stabilized Hotels data is used when information for more than two years is provided.

6 Horwath International – Worldwide Hotel Industry Study, 1995.

Internal Growth

The Corporation believes opportunities exist for growth within its existing and newly opened properties by increasing market share and yield, thereby improving the hotels' profitability. By focusing on these opportunities, Four Seasons increased the REVPAR by approximately 12% from 1995 to 1996 for fully opened hotels under management during all of both years. Gross operating profit margins for these hotels increased from 29.9% of total hotel revenues in 1995 to 32.9% in 1996. As a result, incentive fees increased 28.9% to $19.1 million in the year ended December 31, 1996.

New Hotel and Resort Opportunities

Having established a network of luxury hotels in many of the world's key financial centres, future expansion is expected to occur primarily in locations that satisfy Four Seasons' objectives of better servicing the travel needs of its existing customer base and attracting new international business travellers to its managed hotels and resorts worldwide. Four Seasons expects that future growth will focus on China, the Middle East, Southeast Asia, South America, Africa and Europe, as well as selected urban and resort locations in the United States and the Caribbean, where significant consumer demand warrants a luxury hotel or resort property. Overall, Four Seasons plans to increase the number of resorts it manages in order to serve the leisure travel needs of its customers, which should reduce seasonality of its cash flows. Four Seasons currently has 14 new hotels and resorts under construction or development and is evaluating over 30 additional management opportunities in various locations around the world. The Corporation believes that it will continue to consider and acquire appropriate new hotel and resort management agreements as a result of its competitive strengths. In 1997, the Corporation expects to assume the management of five additional hotels and resorts, including the Four Seasons Hotel in Atlanta, which was relaunched under the Corporation's management in March of 1997.

Luxury Vacation Ownership and Residential Properties

As part of its programme to leverage its brand name and capitalize on its existing operational and marketing base, Four Seasons is exploring opportunities such as luxury vacation ownership properties and hotel-serviced residential real estate developments integrated with Four Seasons managed hotels and resorts. In early 1997, Four Seasons began the sales and marketing of the first Four Seasons Resort Club, a luxury vacation ownership property adjacent to the Four Seasons Resort Aviara in southern California. Other luxury vacation ownership projects are under development in connection with the Four Seasons resorts planned for Scottsdale and Punta Mita. In 1995, Four Seasons also agreed to license the Four Seasons and Regent brand names to a luxury condominium development adjacent to The Regent Jakarta for a significant royalty fee. Four Seasons expects to pursue similar vacation ownership and residential development initiatives in a number of its future resort and urban developments. Four Seasons expects to earn a range of management fees, including royalty fees for the use of the Four Seasons brand, for the provision of management services in connection with these projects and to receive fee income for overseeing the sales and marketing of the vacation ownership projects.

Regent Joint Venture

The Corporation also expects to earn fee income from its December 1996 alliance with Carlson Hospitality Worldwide ("Carlson"), which is intended to enhance the future development of Regent hotels around the world. The Corporation believes that the growth potential for the Regent brand inherent in this strategic joint venture surpasses the level the Corporation would have been able to achieve on its own. Under the terms of this arrangement, Carlson will acquire rights to the Regent name for new development and has agreed to create a luxury hotel division to embark on a development programme to expand the chain of Regent hotels through the addition of new franchise arrangements and management contracts. Four Seasons will continue to manage (and receive base and incentive fees from) the existing nine Regent hotels, and will have the opportunity, and in certain circumstances the obligation, to manage new Regent hotels that require its management. Four Seasons will develop with Carlson quality standards for future Regent growth. In addition to its share of management fees from new Regent hotels, Four Seasons will be entitled to receive payments from Carlson calculated as a percentage of the gross royalty revenue of the new franchise development effort. These payments will be nominal as the development programme gets underway, and thereafter will be determined by the future success of the new enterprise to generate revenue. In addition to its global leadership in hospitality services and marketing, Carlson provides the ability to place bookings in Regent hotels through its ownership of one of the two largest travel agency networks in the world, which has more than 4,000 locations in 125 countries. The goal of the alliance is to maximize the global value of the Regent brand name to create a larger chain of Regent properties throughout the world.

INDUSTRY AWARDS

Four Seasons and Regent have each gained worldwide reputations for quality, service and innovation in the luxury segment of the business and leisure travel market. These reputations have been widely acknowledged by the following leading surveys of hotel properties:

Institutional Investor

Fifteen Four Seasons and Regent hotels were ranked among the world's top 100 hotels in a survey of international financiers published in the September 1996 issue of Institutional Investor.

AAA Five Diamond Awards

Four Seasons properties received 14 of the 52 lodging awards for 1997. The Four Seasons Hotel Vancouver has received the American Automobile Association Five Diamond Award every year since the awards began in 1977. In addition, in 1996, four Four Seasons restaurants received the prestigious Five Diamond Award for Restaurants, including Truffles Restaurant at the Four Seasons Hotel Toronto (the only restaurant in eastern Canada to be so honoured).

Condé Nast Traveler's Readers Choice Awards

Fourteen Four Seasons and two Regent properties ranked among the world's top 100 list in the Condé Nast Traveler's 1996 Readers' Choice Awards. Nine Four Seasons hotels were ranked in the "Top 25 U.S. Hotels" category, including The Ritz-Carlton Hotel Chicago (a Four Seasons hotel), which ranked first. The Four Seasons hotels in Tokyo and Singapore were highlighted as rising stars in the survey, and the Four Seasons Resort Maui was ranked first in the "Top 50 Tropical Resorts" category.

Travel & Leisure

Travel & Leisure's first-ever "World's Best" awards in October 1996 listed 13 Four Seasons and Regent hotels among the top 100, including four in the top 20. In a separate category, the Four Seasons Resort Nevis was ranked first among "The Best Hotels in the Caribbean and Bermuda".

Gourmet

In the inaugural "America's Top Tables" survey of Gourmet magazine readers in October 1996, four restaurants managed by Four Seasons ranked first in their respective cities: Aujourd'hui at the Four Seasons Hotel Boston, The Dining Room at The Ritz-Carlton Hotel Chicago, Truffles at the Four Seasons Hotel Toronto, and The Fountain at the Four Seasons Hotel Philadelphia.

DESCRIPTION OF HOTELS AND RESORTS

Four Seasons properties are comprised of luxury hotels and resorts whose target customers are principally business travellers, corporate and incentive groups and discriminating leisure travellers. Four Seasons urban hotels are centrally located in the commercial and financial districts of the world's leading cities in North America, Asia/Pacific and Europe. Four Seasons luxury resorts provide more extensive recreational facilities and expanded meeting facilities to attract upscale leisure travellers and groups. The following table sets forth certain information relating to each property managed by Four Seasons:

Properties Managed by Four Seasons:

Hotel and Location	Number of Rooms	Equity Interest of Four Seasons
North America		
Four Seasons Hotel Atlanta, *Georgia, USA*	246	— (1)
Four Seasons Hotel Austin, *Texas, USA*	292	—
The Regent Beverly Wilshire Hotel (Beverly Hills), *California, USA*	295	—
Four Seasons Biltmore Resort (Santa Barbara), *California, USA*	234	—
Four Seasons Hotel Boston, *Massachusetts, USA*	288	—
Four Seasons Hotel Chicago, *Illinois, USA*	343	7.7% (2)
The Ritz-Carlton Hotel Chicago, *Illinois, USA*	430	25% (3)
Four Seasons Hotel Houston, *Texas, USA*	399	—
Four Seasons Resort Hualalai (Kona), *Hawaii, USA*	250	—
Four Seasons Resort and Club Las Colinas (Dallas), *Texas, USA*	357	—
Four Seasons Hotel Los Angeles, *California, USA* (4)	285	—
Four Seasons Resort Maui at Wailea, *Hawaii, USA*	380	—
Four Seasons Hotel Mexico City, *Mexico*	239	—
Four Seasons Resort Nevis, *Nevis*	196	—
Four Seasons Hotel Newport Beach, *California, USA*	285	—
Four Seasons Hotel New York, *New York, USA*	370	—
Four Seasons Resort Palm Beach, *Florida, USA*	210	—
The Pierre (New York), *New York, USA*	202 (5)	100% (2)(6)
Four Seasons Hotel Philadelphia, *Pennsylvania, USA*	371	—
Four Seasons Olympic Hotel (Seattle), *Washington, USA*	450	3.4% (2)
Four Seasons Hotel Toronto, *Ontario, Canada*	380	—
Four Seasons Hotel Vancouver, *British Columbia, Canada*	385	100% (2)(7)
Four Seasons Hotel Washington, *District of Columbia, USA*	196	15% (3)

Properties Managed by Four Seasons *(continued)*:

Hotel and Location	Number of Rooms	Equity Interest of Four Seasons
Asia/Pacific		
Four Seasons Resort Bali at Jimbaran Bay, *Indonesia*	147	—
The Regent Hotel Bangkok, *Thailand* (8)	400	—
The Regent Resort Chiang Mai, *Thailand*	67	—
The Regent Hong Kong, *Hong Kong*	602	25% (2)(9)
The Regent Hotel Jakarta, *Indonesia*	384	— (3)(10)
The Regent Hotel Kuala Lumpur, *Malaysia*	469	—
Four Seasons Hotel Singapore, *Singapore*	257	—
The Regent Hotel Singapore, *Singapore* (4)	441	—
The Regent Hotel Sydney, *Australia*	594	—
The Regent Hotel Taipei, *Taiwan* (11)	553	—
Four Seasons Hotel Tokyo, *Japan*	283	—
Europe		
Four Seasons Hotel Berlin, *Germany*	204	100% (2)
Four Seasons Hotel Istanbul, *Turkey*	65	—
Four Seasons Hotel London, *England*	227	— (12)
Four Seasons Hotel Milan, *Italy*	98	—

(1) The Corporation has advanced, or will advance, a loan up to US$7.5 million in connection with the acquisition of the management of this hotel.

(2) Leasehold interest.

(3) Freehold interest.

(4) Four Seasons received notice in 1992 that the owners of two managed hotels are asserting that Four Seasons' acquisition of Regent, which managed a hotel in the same city, resulted in a breach of the radius restrictions in their respective management agreements. Four Seasons has been in discussions since 1992 with the owners to resolve these issues. Four Seasons continues to manage these properties and to receive fee revenues under the applicable management agreements.

(5) Includes 30 cooperative suites leased from individual owners and operated as hotel rooms.

(6) Initial term of lease expires in January 2002. The Corporation has the option to renew for a further 30 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 31).

(7) Initial term of lease expires in January 2000. The Corporation has the option to renew for a further 35 years on the same terms and conditions. (See discussion in Management's Discussion and Analysis on page 31).

(8) Management agreement expires in December 2005.

(9) Initial terms of operating lease and management agreement expire in December 2000. There is an option to extend the lease agreement for an additional ten years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. While Four Seasons does not control the extension rights, it intends to take whatever action may be necessary to protect its minority interest in the lease and its interest in the management agreement.

(10) Four Seasons' advance of US$5 million is convertible into a 5% equity interest in the hotel, subject to regulatory approval.

(11) Management agreement expires in December 2000.

(12) As part of the consideration for the sale of the Four Seasons Hotel London in December 1995, the Corporation received a secured cash flow bond of £12.6 million, of which £1 million has been repaid in 1997.

Four Seasons currently has 14 hotels and resorts under construction or development. The following table sets forth certain information relating to these properties:

Hotel and Location [1]	Approximate Number of Rooms	Scheduled Opening	Proposed Equity Interest
Four Seasons Hotel Amman, *Jordan*	175	2000	5%
Four Seasons Resort, Aviara at Carlsbad, *California, USA*	331	1997	7.3%
Four Seasons Resort Bali at Sayan, *Indonesia*	50	1997	—
Four Seasons Hotel, Leela Palace Bangalore, *India*	250	1999	—
Four Seasons Resort, Leela Palace Bombay, *India*	320	1999	—
Four Seasons Hotel, First Residence Cairo, *Egypt*	273	1998	—
Four Seasons Hotel, Nile Plaza Cairo, *Egypt*	368	2000	9%
Four Seasons Hotel Caracas, *Venezuela*	214	1998	—[2]
Hotel George V (Paris), *France*	270	1999	—[3]
Four Seasons Resort, Leela Beach Goa, *India*	200	1997	—
Four Seasons Hotel Las Vegas, *Nevada, USA*	400	1998	—
Four Seasons Resort Punta Mita, *Mexico*	100	1998	15%
Four Seasons Hotel Riyadh, *Saudi Arabia*	225	2001	—
Four Seasons Resort Scottsdale, *Arizona, USA*	170	1998	15%

(1) Information concerning hotels under construction or under development is based upon agreements and letters of intent and may be subject to change. The dates of opening and proposed equity interests have been estimated by management. There can be no assurance that the date of opening will be achieved, that estimated equity interests or advances will not change or that these projects will be completed.

(2) Four Seasons has agreed to make an advance of up to US$5 million in connection with the completion of this hotel.

(3) The Corporation has agreed to advance £15 million to an affiliate of Kingdom in connection with the acquisition of the long-term management agreement for this hotel. The Corporation has also agreed to make an addtional advance of £2 million to an affiliate of Kingdom to assist with the costs of the repositioning and relaunch programme. The Corporation has commenced supervisory management and oversight of a major refurbishing programme for this hotel and will begin to receive fees for these services in 1997.

Hotel Management Operations

Management Agreements

Four Seasons generally supervises all of its hotels pursuant to separate management or lease agreements with third-party hotel owners. The Corporation's management agreements currently have remaining terms ranging from four years to in excess of 100 years, with an average remaining term of approximately 58 years for Four Seasons hotels and approximately 18 years for Regent hotels, including extension periods available at Four Seasons' option.

Under its management agreements, Four Seasons generally oversees all aspects of the day-to-day operations of each hotel on behalf of the hotel owner, including hiring, training and supervising staff, maintaining sales and marketing efforts, providing hotel accounting, purchasing and budgeting functions, providing support for management information systems and applications and providing for the safekeeping, repair and maintenance

of the physical assets. Four Seasons performs these services within the guidelines contained in annual operating and capital plans that are submitted to the owners of the hotels during the last quarter of the preceding year for their review and approval. For these services, Four Seasons typically earns a base fee equal to a percentage of hotel gross operating revenue, and may earn an incentive fee based on certain operating results of the hotel.

Four Seasons provides centralized reservations services, worldwide sales offices, marketing programmes and advertising services to hotels under its management. All of these services are provided by Four Seasons on a cost recovery basis to the hotel owners.

Four Seasons also provides a centralized purchasing system for goods and services to maintain uniform quality and to control hotel operating costs at all the Four Seasons hotels and certain Regent hotels. In return for this service, Four Seasons receives a fee calculated as a percentage of purchasing expenditures.

Although the owners generally are responsible for financing and managing the development of hotels, Four Seasons typically plays a significant pre-opening role. Four Seasons provides advice with respect to the design and construction specifications of hotels during the development stage to ensure that they meet Four Seasons' standards. Four Seasons earns a variety of fees for these pre-opening services. Four Seasons also assists owners in connection with the refurbishment of hotels in return for which it earns a refurbishing fee.

Under the Corporation's management agreements, the hotel owner generally is responsible for the funding of the hotel's capital expenditures and working capital requirements, including the salaries and benefits of all hotel employees. The hotel owner typically is required to set aside a percentage of hotel revenue as a capital reserve for the hotel. Such percentages typically range from 2.5% to 4.0% of hotel gross operating revenues. Four Seasons proposes an operating plan and capital expenditure budget to the hotel owner for approval on an annual basis. All structural changes, major refurbishing programmes and major repairs require the separate approval of hotel owners prior to implementation by Four Seasons.

Total fee revenues are geographically diversified around the world, with only North America as a geographic segment contributing in excess of 40% of all fee revenues in 1996 (62% in 1996 as compared to 59% in 1995).

Global Diversification
of 1996 Fee Revenues
(percent)

Sales and Marketing

Four Seasons is responsible for the development of overall sales and marketing strategies for the portfolio of hotels, which include establishing international awareness for the Corporation's brands and developing local market potential for specific hotels. Four Seasons' marketing efforts are coordinated through its headquarters in Toronto and are targeted at the luxury segment of the market for business (including group and conference business) and leisure or tourist travel worldwide. Four Seasons' customer mix consists principally of business travellers, corporate and incentive groups, and leisure travellers. These customer segments accounted for an estimated 43%, 26% and 31%, respectively, of total room nights in 1996. The corporate marketing staff also oversees the planning and implementation of hotel marketing programmes and organizes the training and development programmes for the global sales force and the local sales and marketing staff.

Four Seasons has a global sales force of over 60 salespeople in 13 integrated sales offices in Atlanta, Chicago, Dallas, Frankfurt, Hong Kong, London, Los Angeles, New York, Singapore, Sydney, Tokyo, Toronto and Washington, D.C. Key objectives of the sales force are to attract groups and corporate business travellers for the hotels and resorts, as well as to establish personal contacts with nationally recognized travel agencies. In addition, over 220 salespeople are employed locally at hotels under management. The local marketing strategy concentrates on developing rooms and food and beverage business for hotels locally and regionally, and promoting the hotel as a centre of community activity with a view to increasing local revenues.

Four Seasons also provides an international corporate advertising programme that develops and places advertising for the Four Seasons hotels and oversees each hotel's promotional programmes. The Corporation's advertisements are designed to enhance consumer awareness of Four Seasons' luxury service and the value that such services provide to the business and leisure traveller. A similar brand advertising programme highlighting specific properties is coordinated among the individual Regent hotels by the Corporation.

The Corporation operates a global reservation system for all of its hotels. Currently, the Corporation has one reservation centre for Four Seasons and one reservation centre for Regent. The Corporation's global reservation service system provides reservation services in the local language in major North American, Asian and European cities, in a total of 26 markets worldwide. Airline reservation systems are another key part of Four Seasons' global distribution network. Both Four Seasons and Regent hotels reservation systems are fully-integrated with airline booking systems worldwide. This enhances service to travel agents around the world by giving them access to electronically updated hotel inventory and room rates. It is contemplated that after a transition period following the acquisition by Carlson of the Regent name for new development, the Regent reservation system, which is currently operated by a third party, will be operated by Carlson on behalf of all Regent hotels.

Hotel Management Resources

Each Four Seasons hotel is managed by a general manager and supported by an area vice president or by a regional vice president (who also is a general manager) and other corporate vice presidents. The size of each hotel's management team and its hourly staff varies, based on the size and business volume of the particular property. Hotel management monitors staffing levels on a weekly basis to optimize labour productivity and minimize costs.

A general manager is responsible for supervising the day-to-day operations of a single hotel and is compensated in part based on the operational performance of that hotel. Four Seasons general managers report directly to one of seven regional vice presidents or directly to an area vice president. A regional marketing director, a regional controller and a regional human resource director complete the regional support team. These individuals are full-time employees of a Four Seasons hotel, with a portion of their time being devoted to regional activities. The Corporation believes its regional management structure is a key component in Four Seasons' ability to deliver and maintain the highest and most consistent standards of product quality and service at each of its hotels in a cost effective manner.

From the corporate level, the Corporation provides each hotel with the benefits of management services that are delivered by a network of experienced executives, corporate personnel and area mangers. The Corporation also provides or arranges assistance and training to each hotel's employees for administration, operations, rooms and guest service, reservations, maintenance and engineering, human resources and benefits. Other services provided by the Corporation include advice and assistance with treasury functions, internal audit, credit services, accounting, tax, legal and risk management.

Employees

Four Seasons directly employs and is responsible for approximately 260 people at the worldwide sales offices, the central reservations offices and the corporate offices. In addition, there are approximately 21,000 employees located at the 38 hotels and resorts managed by Four Seasons. All costs relating to hotel employees including wages, salaries and health and insurance benefits are the responsibility of the hotel owners and are paid out of the operating cash flow of the hotels.

Hotel management and corporate staff share responsibility for the selection and training of hotel employees and for ensuring, through progressive career development, an adequate supply of mobile, qualified and experienced staff to match the growth of the Corporation's operations internationally. Maintenance of employee communication, motivation and morale at high levels is necessary to meet the expectations of Four Seasons' clientele. A significant effort has been devoted to developing customized training programs and approaches in this context.

Of the 38 hotels and resorts under management, 11 are covered by collective bargaining agreements. These are the Four Seasons hotels in Vancouver, Toronto, New York, London, Bali and Milan, the Regent hotels in Los Angeles, Sydney and Singapore, and The Pierre and The Ritz-Carlton Hotel Chicago.

Hotel Ownership Operations

Four Seasons holds an ownership interest in, or has advances to, 11 of the 38 hotels and resorts currently under management and has made, or expects to make, investments in, or advances to, seven of the hotels and resorts under construction or development. Four Seasons' material investments relate to a 100% leasehold interest in each of the Four Seasons Hotel Berlin, the Four Seasons Hotel Vancouver and The Pierre in New York, a 25% leasehold interest in The Regent Hong Kong and a 25% investment in The Ritz-Carlton Hotel Chicago. The Corporation received a secured cash flow bond of £12.6 million (£1 million of which has been repaid in 1997) in connection with the sale of the Four Seasons Hotel London in 1995 and has agreed to make a loan of £15 million in connection with the acquisition of the management contract of the Hotel George V in Paris. The Corporation has also agreed to advance an additional £2 million in connection with the costs of the repositioning and relaunch of that hotel. In addition, the Corporation has advanced a total of US$7.5 million in connection with the long-term management agreement for the Four Seasons Hotel Atlanta.

Although Four Seasons will continue to make loans or minority investments to secure long-term management contracts, these investments will only be made in order to expand its management business and where the overall economic return to Four Seasons justifies the investment.

Four Seasons works closely with the owners and developers in developing new properties and acquiring existing luxury properties to be managed by Four Seasons. To the extent required, Four Seasons makes capital investments to obtain long-term management contracts for these hotels or resorts. However, Four Seasons generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its equity interests separately from its management interests so as to enable it to dispose of equity ownership interests as sales opportunities arise, without affecting its management interests.

INTELLECTUAL PROPERTY

In the highly competitive service industry in which Four Seasons operates, trade names and trademarks are very important in the sale and marketing of those services. Four Seasons has a significant number of trade names, trademarks and service marks, and significant time and effort are spent each year on surveillance, registration and protection of trade names, trademarks and service marks, which Four Seasons believes have become synonymous in the lodging industry with a standard of attention to detail and an unwavering dedication to excellence.

Four Seasons and Carlson have entered into an arrangement pursuant to which Carlson will acquire rights to the Regent name for new development. Under this arrangement, Carlson will own and have exclusive right to use the Regent name and related trademarks, service marks and logos and will grant Four Seasons the right to use the Regent name and related marks and logos at Regent properties managed by Four Seasons.[7]

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Two-Year Summary by Quarter

(in thousands of dollars except per share amounts)	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995
Consolidated revenues	**$ 35,152**	$ 38,867	**$ 29,562**	$ 31,900	**$ 29,148**	$ 33,840	**$ 26,849**	$ 30,980
Earnings before other operating items:								
Hotel management	**16,641**	15,756	**13,606**	11,401	**13,264**	12,584	**12,161**	12,010
Hotel ownership	**2,757**	4,820	**1,610**	3,390	**2,452**	4,429	**1,853**	2,301
Net earnings (loss):								
Total	**$ 11,217**	$ (86,226)	**$ 6,539**	$ 3,511	**$ 7,081**	$ 5,548	**$ 5,029**	$ 2,596
Basic and fully diluted per share	**$ 0.39**	$ (3.03)	**$ 0.23**	$ 0.12	**$ 0.24**	$ 0.20	**$ 0.18**	$ 0.09

7 See "Regent Joint Venture" on page 16.

Five-Year Review

(in millions of dollars except per share amounts)	**1996**	1995	1994	1993	1992
Statements of Operations Data:					
Consolidated revenues [1]	**$ 120.7**	$ 135.6	$ 128.5	$ 101.1	$ 133.9
Hotel Management Operations					
Fee revenues	**$ 94.7**	$ 88.5	$ 79.9	$ 60.3	$ 42.5
Hotel management earnings before other operating items	**55.7**	51.8	45.9	27.9	18.6
Hotel Ownership Operations					
Revenues	**17.6**	42.5	43.1	38.0	93.1
Distribution from hotel investments	**9.2**	6.0	6.8	3.9	1.8
Hotel ownership earnings (loss) before other operating items	**8.7**	14.9	14.2	7.2	(6.3)
Earnings before other operating items	**64.3**	66.7	60.0	35.1	12.3
Depreciation and amortization	**14.0**	16.9	16.9	14.8	13.4
(Provision for loss) recovery of loss, net [2]	**—**	(95.0)	—	(127.0)	0.9
Earnings (loss) from operations [3]	**50.6**	(45.0)	43.6	(101.9)	3.0
Interest expense, net	**(18.8)**	(25.7)	(27.2)	(17.9)	(8.6)
Earnings (loss) before taxes [4]	**31.8**	(70.7)	9.6	(119.8)	(5.6)
Income tax (expense) recovery	**(2.0)**	(3.9)	(2.8)	(1.0)	12.8
Net earnings (loss)	**$ 29.9**	$ (74.6)	$ 6.8	$ (120.8)	$ 7.2
Earnings (loss) per share:					
Basic and fully diluted	**$ 1.04**	$ (2.62)	$ 0.24	$ (4.35)	$ 0.30
Weighted average number of shares (millions) [5]	**28.7**	28.4	27.9	27.8	23.9
Changes in Financial Position:					
Cash provided by operations	**$ 43.7**	$ 38.7	$ 44.8	$ 12.5	$ 5.0
Long-term receivables	**0.4**	(32.9)	(10.4)	(8.1)	(12.3)
Disposal of long-term receivables	**—**	13.2	—	—	—
Investments	**(21.1)**	(14.6)	(11.8)	(31.4)	(323.8)
Disposals (purchases) of hotels	**4.3**	65.7	51.7	—	110.5
Capital expenditures	**(1.3)**	(2.4)	(1.6)	(1.5)	(14.0)
Dividends	**(3.0)**	(3.1)	(3.1)	(3.1)	(2.7)
Balance Sheet Data:					
Total assets	**$ 385.3**	$ 381.6	$ 491.5	$ 518.1	$ 600.4
Total debt	**171.9** [6]	267.6	308.6	357.5	305.9
Shareholders' equity	**202.1** [6]	57.2	137.2	124.7	247.2

FIVE-YEAR REVIEW *(continued)*

(in millions of dollars except per share amounts)	**1996**	1995	1994	1993	1992
Other Data:					
Total revenues of all managed hotels (7)	**$ 1,901.5**	$ 1,837.9	$ 1,698.2	$ 1,351.9	$ 878.7
Fee revenues as a % of Consolidated revenues	**78.5%**	65.2%	62.2%	59.6%	31.7%
Percentage of Fee revenues derived outside North America	**38.3%**	40.9%	38.8%	35.9%	24.2%
Hotel management operating margin (8)	**58.8%**	58.5%	57.4%	46.3%	43.8%
Hotel management earnings before other operating items as a % of Earnings before other operating items	**86.5%**	77.6%	76.4%	79.6%	151.2%
EBITDA (9)	**$ 64.3**	$ 66.7	$ 60.0	$ 35.1	$ 12.3
Debt, net of cash	**$ 97.6(6)**	$ 230.9	$ 299.2	$ 345.6	$ 290.2
Market price per share at year-end	**$ 27.75**	$ 19.00	$ 16.25	$ 13.00	$ 19.38
Shares outstanding (millions) (5)	**28.7**	28.5	28.4	27.8	27.7
Market capitalization at year-end (10)	**$ 797.2**	$ 541.3	$ 461.9	$ 361.1	$ 537.6
Employees	**21,000**	21,500	21,500	20,050	19,500

(1) Consolidated revenues are comprised of fee revenues from hotel management operations, revenues from hotel ownership operations and distributions from hotel investments, less fees from hotel ownership operations to hotel management operations.

(2) Provision for losses on certain hotel investments, long-term receivables and related assets were made in 1993 and 1995 in order to write those investments down to their estimated net recoverable values and to provide for likely losses on debt guarantees and lease commitments relating to certain of the hotel investments. Most of these assets were subsequently sold in the period from January 1994 to December 1996 for aggregate net proceeds approximating the written down values. Accordingly, no further net gains or losses were recorded.

(3) Earnings (loss) from operations represents earnings before other operating items plus (i) investment income less (ii) depreciation and amortization plus (iii) recovery of loss less (iv) provision for loss.

(4) Earnings (loss) before taxes represents earnings (loss) from operations plus (i) interest income less (ii) interest expense less (iii) costs of $6.8 million associated with the sale of shares in 1994.

(5) Weighted average number of shares and shares outstanding are comprised of Limited Voting Shares and Variable Multiple Voting Shares.

(6) Total debt, debt, net of cash and shareholders' equity are presented pro-forma to reflect the effect of an equity issuance by FSHI and the closing of the sale of the Four Seasons Hotel Toronto in the first quarter of 1997.

(7) Total revenues of all managed hotels consist of rooms, food and beverage, telephone and other revenues of all the hotels which the Corporation manages.

(8) Hotel management operating margin is equal to hotel management earnings before other operating items divided by fee revenues.

(9) EBITDA is equal to net earnings (loss) plus (i) income tax expense less (ii) income tax recovery plus (iii) costs associated with sale of shares plus (iv) interest expense less (v) interest income plus (vi) provision for loss less (vii) recovery of loss plus (viii) depreciation and amortization less (ix) investment income. EBITDA is equivalent to earnings before other operating items. EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles, and such information should not be considered as an alternative to net income, cash flow from operations or any other measure of performance prescribed by generally accepted accounting principles. EBITDA is included herein because management believes that certain investors find it to be a useful tool for measuring the ability to service debt.

(10) As a result of the completion of the equity issuance by FSHI on February 12, 1997, FSHI's market capitalization increased to $1,092.3 million as at that date.

Summary Hotel Operating Data

The following table sets forth certain summary hotel operating data for hotels and resorts under Four Seasons management in the years shown.

(unaudited)	**1996**	1995	1994	1993	1992
All Managed Hotels:					
Worldwide					
No. of properties	**37**(1)	38	38	37	34
No. of rooms	**11,628**(1)	12,663	12,850	12,591	11,893
North America					
No. of properties	**22**(1)	22	23	23	22
No. of rooms	**6,837**(1)	7,152	7,481	7,476	7,111
Asia/Pacific					
No. of properties	**11**	14	12	11	10
No. of rooms	**4,197**	5,186	4,735	4,481	4,246
Europe					
No. of properties	**4**	2	3	3	2
No. of rooms	**594**	325	634	634	536
Stabilized Hotels:					
Worldwide					
No. of properties	**33**	36	36	31	22
No. of rooms	**10,725**	12,212	12,286	10,831	7,003
Occupancy (2)	**74.9%**	71.7%	70.9%	67.6%	65.1%
ADR (3)	**$ 316.27**	$ 278.79	$ 255.83	$ 214.15	$ 207.25
REVPAR (4)	**$ 236.75**	$ 199.94	$ 181.43	$ 144.78	$ 134.97
Gross operating margin (5)	**32.6%**	28.9%	26.4%	21.4%	17.1%
North America					
No. of properties	**21**	22	22	22	21
No. of rooms	**6,587**	7,152	7,174	7,109	6,776
Occupancy (2)	**75.3%**	70.9%	69.7%	68.5%	65.3%
ADR (3)	**$ 329.22**	$ 293.63	$ 271.09	$ 224.86	$ 199.29
REVPAR (4)	**$ 247.96**	$ 208.07	$ 189.03	$ 154.00	$ 130.15
Gross operating margin (5)	**31.3%**	27.9%	24.5%	19.2%	16.0%
Asia/Pacific (6)					
No. of properties	**10**	12	11	8	—
No. of rooms	**3,813**	4,735	4,478	3,495	—
Occupancy (2)	**73.5%**	72.5%	73.1%	66.0%	—
ADR (3)	**$ 267.46**	$ 238.71	$ 214.63	$ 174.82	—
REVPAR (4)	**$ 196.45**	$ 173.15	$ 156.87	$ 115.42	—
Gross operating margin (5)	**33.8%**	29.2%	28.4%	25.3%	—
Europe					
No. of properties	**2**	2	3	1	1
No. of rooms	**325**	325	634	227	227
Occupancy (2)	**81.4%**	78.9%	69.2%	64.3%	59.7%
ADR (3)	**$ 569.60**	$ 515.11	$ 382.99	$ 460.45	$ 461.46
REVPAR (4)	**$ 463.71**	$ 406.64	$ 265.04	$ 295.97	$ 275.33
Gross operating margin (5)	**41.7%**	39.6%	31.8%	33.7%	34.0%

(1) Since December 31, 1996, the Corporation has commenced management of the Four Seasons Hotel Atlanta which has 246 rooms.

(2) Occupancy percentage is defined as the total number of rooms occupied divided by the total number of rooms available.

(3) ADR is defined as average daily room rate per room occupied.

(4) REVPAR (or yield) is defined as average room revenue per available room. REVPAR and yield are commonly used indicators of market performance for hotels and represent the combination of the average daily room rate and the average occupancy rate achieved during the period. REVPAR and yield do not include food and beverage or other ancillary revenues generated by a hotel.

(5) Gross operating margin represents gross operating profit as a percent of gross operating revenue.

(6) Excludes results in 1993 for the Four Seasons Hotel Tokyo and The Regent Taipei which are Stabilized Hotels but for which operating results are not available.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL OBJECTIVES

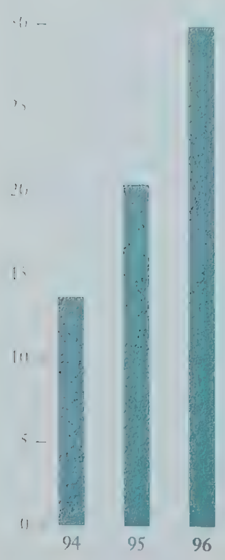
The financial objectives of the Corporation over the next few years can be summarized as follows:

- Identify and obtain opportunities that allow the Corporation to maintain high profit margins in its hotel management operations and earn significant returns on invested capital.
- Continue to leverage the strength of the brand names by maximizing the number of new management opportunities with minimal or no capital investment.
- Reduce cost of capital by obtaining investment grade debt rating within the next 18 to 24 months and by refinancing existing long-term debt.
- Identify acquisition opportunities to manage existing unbranded hotels, such as the Hotel George V in Paris, or groups of management contracts, such as Regent.
- Continue to improve profitability of existing hotels under management.

OVERVIEW OF 1996

The Corporation has achieved a number of important strategic objectives over the past 12 months. The completion of the asset disposition programme, combined with the equity issuance by FSHI, have allowed the Corporation to significantly strengthen its balance sheet and to pursue an aggressive growth programme. The key financial accomplishments include the following:

Normalized
Net Earnings[1]
($ millions)



[1] *Excludes accounting provision taken in 1995 and cost associated with sale of shares in 1994.*

- Net earnings increased 46% to $29.9 million ($1.04 per share), compared to normalized net earnings of $20.4 million for 1995 (which excludes the $95 million accounting provision taken in 1995 for certain leasehold and other real estate interests), reflecting continued growth in the hotel management business and lower interest costs resulting from declining debt levels.
- Hotel management operations contributed 86.5% of total earnings before other operating items.
- Profit margins on hotel management operations remained high, consistent with the 1995 level of 59%. Management currently expects that the profit margin on hotel management operations will be 60% in 1997 and should continue to improve in future years due to improved profit retention and the expected growth of high profit margin fee streams.
- Hotels under Four Seasons' management during all of both 1995 and 1996 had an increase of approximately 12% in REVPAR for the full year of 1996 compared to 1995, reflecting continued growth in demand and strong rate management.
- The Corporation completed the asset disposition programme initiated in 1993, resulting in the sale of 14 hotel ownership interests for net proceeds of $146 million, which were used primarily to reduce corporate debt.
- In February 1997, FSHI completed the issuance and sale of 4,370,000 Limited Voting Shares for net proceeds of approximately $114 million. The Limited Voting Shares of FSHI also began trading on the New York Stock Exchange under the ticker symbol "FS".

- After taking into account the equity offering and the closing of the sale of the Four Seasons Hotel Toronto in the first quarter of 1997, the Corporation's debt on a pro-forma basis was reduced to approximately $172 million and its cash reserves on a pro-forma basis increased to approximately $74 million.
- At the end of 1996, FRA Properties partnership, which held the Corporation's leasehold interests in the Four Seasons Hotel Vancouver and The Pierre in New York, was effectively dissolved and Four Seasons consolidated the operations of these two hotels with effect from December 30, 1996. The Corporation does not have any remaining obligations to FRA Properties partnership.
- Four Seasons opened new hotels in Berlin and Istanbul and a new resort in Kona, Hawaii.
- Construction of the Four Seasons in Aviara, an important resort, vacation ownership and golf project, recommenced and is scheduled to open in 1997.
- Four Seasons announced a joint venture with Carlson to expand the Regent brand name worldwide.

Operational and Financial Review and Analysis

Four Seasons has two operating segments: hotel management operations and hotel ownership operations. It is Four Seasons objective to maximize its hotel management operations and to only make investments, where required, to secure additional management opportunities. Revenues from hotel management operations and hotel ownership operations as a percentage of consolidated revenues are set forth in the following table:

	1996	1995	1994	1993	1992
Fee revenues from hotel management	**78.5%**	65.2%	62.2%	59.6%	31.7%
Revenues from hotel ownership	**14.6**	31.3	33.5	37.6	69.5
Distributions from hotel investments	**7.6**	4.5	5.3	3.8	1.4
Fees from hotel ownership to hotel management	**(0.7)**	(1.0)	(1.0)	(1.0)	(2.6)
Consolidated revenues	**100.0%**	100.0%	100.0%	100.0%	100.0%

Hotel Management Operations

In 1996, hotel management earnings represented 86.5% of total earnings before other operating items. Under its management agreements, Four Seasons generally oversees all aspects of hotel operations on behalf of the hotel owners, including hotel sales and marketing, hotel reservations, hotel accounting, purchasing, budgeting and the hiring, training and supervising of staff. For providing these services, Four Seasons typically receives a base fee calculated as a percentage of gross operating revenues of the hotel. In addition, Four Seasons may receive incentive fees based on the operating performance of the hotel.

Through economies of scale, coordinated international marketing efforts and sophisticated labour management controls, Four Seasons generally has enhanced the profitability of hotels under its management and increased its participation in the hotel's operating profits through its incentive fees and, in certain circumstances, its minority ownership positions.

In addition to overseeing day-to-day operations of its hotels, Four Seasons provides management services including developing and implementing sales and marketing strategies, operating a central reservations system, assisting with sourcing the financing of and managing the development of new hotels, providing advice with respect to the design and construction of new or renovated hotels, assisting with the refurbishment of hotels, and providing a centralized purchasing system for hotel goods and services.

General and administrative expenses for hotel management operations are incurred to provide management services and include those items normally associated with the Corporation's corporate overhead, such as finance, operations, computer services, accounting, legal, development and other costs of maintaining the corporate office.

The Corporation's general and administrative expenses are relatively stable. As a result, the Corporation derives substantial operating leverage from increases in management fee revenue. From 1992 to 1996: (i) hotel management fee revenues and hotel management earnings before other operating items have grown at compounded annual growth rates of 22.2% and 31.6%, respectively, (ii) fee revenues as a percentage of consolidated revenues increased from 31.7% to 78.5%, and (iii) hotel management earnings before other operating items as a percentage of fee revenues increased from 43.8% to 58.8%. Management fee growth and profitability are expected to occur as a result of the combination of REVPAR growth of over 5% in 1997 in existing hotels under management, a full year of management fee revenues from the three properties opened in 1996, and the addition of fee revenue from five new management contracts in 1997.

Hotel Management Operations EBITDA
($ millions)

Primarily as a result of expected increases in REVPAR and gross operating profits in hotels fully opened in all of both 1996 and 1997, management fee revenues and hotel management earnings in 1997 are expected to exceed 1996 amounts by approximately 11% and 14%, respectively. These expected increases will be offset, however, by the anticipated loss of management fee revenues of $4.4 million from certain management contracts terminated during 1996, partly as a result of the asset disposition programme. Accordingly, the Corporation expects that hotel management fee revenues and hotel management earnings before other operating items, in total, will each grow by approximately 6% in 1997, compared to 1996 levels. Management fee revenues as a percentage of consolidated revenues will decrease to approximately 42% as a result of additional hotel ownership revenues in 1997 due to the consolidation of The Pierre in New York, the Four Seasons Hotel Vancouver and the Four Seasons Hotel Berlin. Hotel management earnings before other operating items as a percentage of fee revenues are expected to be approximately 60% in 1997.

Hotel Ownership Operations

In 1997, hotel ownership earnings will be derived from the consolidated results of the Four Seasons Hotel Vancouver, The Pierre in New York and The Ritz-Carlton Hotel Chicago. Once the Four Seasons Hotel Berlin is fully opened, which is expected in the second quarter of 1997, its results of operations will also be consolidated in hotel ownership operations. In addition, the Corporation recognizes as revenue dividend distributions in respect of its 25% interest in The Regent Hong Kong and the profit distribution from its other minority interests. It is anticipated that the Corporation will have a minority interest in, or make an advance in respect of, seven of the 14 hotels and resorts under construction or development.

As part of its strategy to reposition itself primarily as a manager of luxury hotels, the Corporation has disposed of its ownership interests in a number of hotel assets. Since 1993, the Corporation has disposed of its debt and equity positions in the Four Seasons hotels in Austin, Bali, Boston, Milan, Nevis, New York, Philadelphia, Santa Barbara, San Francisco, Toronto, The Regent Fiji and the Inn on the Park in Toronto, all in separate transactions and for various consideration. During the same period, the Corporation disposed of its

50% ownership interest in the Four Seasons Hotel in London and its 100% ownership interest in Minaki Lodge in Canada. The Corporation retained the long-term management rights with respect to all of these hotels other than San Francisco, Fiji, Inn on the Park and Minaki Lodge.

Four Seasons continues to acquire minority interests in properties that it manages where necessary to obtain new management agreements and when the overall economic return to Four Seasons justifies the investment. However, the Corporation generally limits its total capital exposure to no more than 20% of the total equity required for the new property and typically can choose to have its ownership interest diluted if additional capital is required. The Corporation structures its equity interests separately from its management interests so as to enable it to dispose of equity ownership interests as sales opportunities arise, without affecting its management interests.

FRA Properties

In 1992, concurrent with its acquisition of Regent, Four Seasons formed a group of property partnerships with the previous owner of Regent to which each party contributed certain hotel real estate assets. Since that time, the partnerships (collectively known as "FRA Properties") have sold their ownership interests in all the properties that were contributed, other than the 100% leasehold interests in the Four Seasons Hotel Vancouver and The Pierre in New York.

The beneficial ownership of the leasehold interests in the Four Seasons Hotel Vancouver and The Pierre in New York were transferred back to the Corporation from FRA Properties effective December 30, 1996. The agreements pursuant to which these properties were transferred back to the Corporation also settled all outstanding claims against the Corporation in connection with its involvement in FRA Properties. The Corporation has no remaining obligations to FRA Properties. At December 31, 1996, the book value of the Corporation's investment in these hotels was $3.5 million (see note 5 to the consolidated financial statements).

Given the lack of liquidity for leasehold interests generally, and certain onerous provisions contained in the leases for these hotels, the Corporation is not able to sell the leasehold interests in these two hotels. The Corporation has been in discussions with the landlords of these hotels since late 1994 to revise the lease structure to allocate major capital expenditure requirements more equitably between the parties and to lower the fixed lease payments. If negotiations are not successful, the Corporation likely will not renew the leases associated with these two hotels, which expire January 31, 2000 and January 31, 2002 for the Four Seasons Hotel Vancouver and The Pierre in New York, respectively. If these leases are not renewed, the Corporation's management arrangements relating to these two hotels would cease on the expiry of the leases. If the Corporation ceased leasing and managing either of these properties, its objective would be to find replacement management opportunities in these cities. Note 13(a) to the consolidated financial statements, which summarizes the Corporation's lease commitments, accordingly reflects only the minimum lease payments for these hotels for the remainder of the initial lease term as the Corporation would have no further obligations relating to these leases thereafter. There is no third party debt associated with the Corporation's leasehold interests relating to the Four Seasons Hotel Vancouver or The Pierre other than related rent obligations.

The full year 1997 effect on the Corporation's net earning of the consolidation of these hotels is expected to be positive. However, these hotels are subject to material seasonal fluctuations as noted below. The following table provides combined summarized financial information relating to the Four Seasons Hotel Vancouver and The Pierre (based on 100% of each of the hotel's operations) for the years ended December 31, 1996 and 1995:

Statements of Operations

(in thousands of dollars)	**1996**	1995
Hotel revenues	**$ 104,710**	$ 94,484
Direct hotel expenses	**(91,934)**	(86,786)
Operating earnings (loss)	**12,776**	7,698
Rent to third parties	**(8,308)**	(8,205)
Earnings (loss) before other operating items (1)	**$ 4,468**	$ (507)

	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
(in thousands of dollars)	**1996**	1995	**1996**	1995	**1996**	1995	**1996**	1995
Hotel revenues	**$ 32,375**	$ 30,340	**$ 24,453**	$ 21,837	**$ 28,486**	$ 25,438	**$ 19,396**	$ 16,869
Direct hotel expenses	**(26,524)**	(25,494)	**(20,964)**	(19,888)	**(23,929)**	(22,507)	**(20,517)**	(18,897)
Operating earnings (loss)	**5,851**	4,846	**3,489**	1,949	**4,557**	2,931	**(1,121)**	(2,028)
Rent to third parties	**(1,817)**	(1,823)	**(1,875)**	(2,165)	**(2,557)**	(2,266)	**(2,059)**	(1,951)
Earnings (loss) before other operating items (1)	**$ 4,034**	$ 3,023	**$ 1,614**	$ (216)	**$ 2,000**	$ 665	**$ (3,180)**	$ (3,979)

(1) Earnings (loss) before other operating items excludes rent and interest expense payable to the Corporation, depreciation, and the write-off in 1995 of leasehold interests.

The Four Seasons Hotel Toronto, also previously owned by FRA Properties, was sold during 1996 (until the date of sale, the hotel had revenues of $35.1 million and earnings before other operating items of $2.5 million ($38.7 million and $1.0 million, respectively, for the year ended December 31, 1995)). In connection with the sale, the Corporation entered into a long-term management agreement with the purchaser of the hotel. The Corporation received net proceeds of $13 million and eliminated its long-term lease obligation relating to that hotel.

Four Seasons Hotel Berlin

Four Seasons entered into an operating lease in connection with the management of the Four Seasons Hotel Berlin in 1991. The Corporation also has a 23% investment in the company that owns and has constructed the multi-use project in Berlin that includes the hotel, as well as commercial, residential and retail space. The Corporation accounts for its investment in this multi-use project by the cost method because the ownership structure does not give it significant influence over the project. Under the terms of the hotel lease, once the hotel is fully operational (which is expected in the second quarter of 1997), the lease for the hotel will commence and the Corporation will begin accounting for its investment in the leasehold interest in the hotel on a consolidated basis, as the Corporation will be responsible for funding the majority of the hotel's operating and capital requirements, including the minimum rent, to the extent not covered by revenues.

Four Seasons has entered into an agreement with one of its equity partners in the project pursuant to which the partner will be responsible for funding up to one-half of any annual operating loss incurred in the first ten

years of the hotel's operation, up to a maximum of DM2 million (approximately $1.7 million) per year and DM15 million (approximately $13 million) in the aggregate. A portion of Four Seasons' interest in the net proceeds, if any, from the sale of the multi-use project, after repayment of debt, has been pledged to that partner to secure repayment to that partner of any amounts it has funded in connection with the hotel's operations. This obligation is recourse only to the Corporation's interest in the net sale proceeds.

Four Seasons' share of the hotel's budgeted operating loss (after funding by its partner and payment of management fees) is currently estimated to be approximately DM1.6 million (approximately $1.4 million) in 1997. These budgeted losses represent normal costs for a hotel in its first two to three years of operation. The Corporation expects fee revenues from this hotel to offset the operating losses that are consolidated. The Corporation's share of any such future loss will be consolidated in hotel ownership operations on the Corporation's statement of operations. The long-term outlook for the hotel is expected to be favourable once construction is completed in the vicinity of the hotel and the Berlin hotel market stabilizes due to the reunification of Germany and the potential relocation of government and corporate offices to Berlin.

Minority Hotel Ownership Interests

Four Seasons has minority investments in three of the hotels under management and has made an investment in three of the hotels under development. The book value of Four Seasons' minority hotel ownership interests was $46 million as at December 31, 1996 ($40 million as at December 31, 1995). This amount represents the Corporation's share of the Four Seasons hotels and resorts in Washington (15%), Chicago (7.7%), Seattle (3.35%), Aviara (7.33%), Nile Plaza, Cairo (9%) and Scottsdale (15%). A 15% interest in the Four Seasons Nevis was sold by the Corporation during 1996. Based upon the current and budgeted operating cash flow (adjusted for expected capital spending requirements) and comparable luxury hotel sales during 1995 and 1996, the Corporation currently estimates that the net recoverable value for its minority hotel investments approximates the book values of these investments (see note 5 to the consolidated financial statements).

None of these investments is material to the Corporation and each of these investments individually represents 5% or less of the total assets of the Corporation. The Corporation has no recourse debt obligations relating to these partnership interests, other than those disclosed in note 13(c) to the consolidated financial statements. For the year ended December 31, 1996, the Corporation earned $11.1 million ($9.1 million in 1995) of hotel management fee revenues and received distributions of $248,000 ($159,000 in 1995) from these minority hotel investments.

The following table sets forth the combined summarized financial information relating to the Corporation's proportionate share of these hotel related investments for the 1996 and 1995 fiscal years, excluding: (i) Four Seasons' 15% investment in the Four Seasons Resort Nevis which was sold in the fourth quarter of 1996 (until the date of sale, the Corporation's proportionate share of the resort's revenues was $6.6 million and of earnings before other operating items was $1.7 million; and as at and for the year ended December 31, 1995, the Corporation's proportionate share of the resort's revenues was $7.0 million, of earnings before other operating items was $1.8 million, of total assets was $14.8 million, and of equity was $5.3 million), and (ii) the book value of the Corporation's hotel ownership interests in the Four Seasons hotels in Berlin, Aviara, Nile Plaza, Cairo and Scottsdale. The lease of the Four Seasons Hotel Berlin is not expected to commence until the second quarter of 1997, the Four Seasons Resort Aviara is not expected to open until the second half of 1997, and the Four Seasons Hotel Nile Plaza, Cairo and the Four Seasons Resort Scottsdale are still under development.

Minority Hotel Ownership Interests (continued)

Statements of Operations

(in thousands of dollars)	**1996**	1995
Hotel revenues	**$ 13,675**	$ 12,856
Direct hotel expenses	**(10,248)**	(9,901)
Operating earnings	**3,427**	2,955
Rent to third parties	**(1,745)**	(1,751)
Earnings before other operating items	**1,682**	1,204
Depreciation	**(753)**	(585)
Interest on third party debt	**(822)**	(852)
Net earnings (loss) (1)	**$ 107**	$ (233)

Balance Sheets

(in thousands of dollars)	**1996**	1995
Current assets	**$ 2,692**	$ 2,389
Long-term assets	**7,658**	7,528
Total assets	**$ 10,350**	$ 9,917
Current liabilities	**$ 4,315**	$ 5,927
Long-term liabilities	**9,178**	6,914
Deficit	**(3,143)**	(2,924)
Total liabilities and deficit	**$ 10,350**	$ 9,917

(1) No provision has been made for income taxes as the liability for such taxes is that of the partners rather than the partnerships.

RESULTS OF OPERATIONS

Year ended December 31, 1996 compared to year ended December 31, 1995.

Hotel Management Operations

Fee Revenues

Fee revenues increased $6.3 million or 7.1% to $94.7 million in 1996, compared to $88.5 million in 1995. The increase is attributable to increased incentive fees of $5.0 million, a $2.4 million net gain realized on the termination of The Regent Fiji management contract and an increase in other fees of $4.6 million. The growth in fee revenues was primarily offset by the termination of management contracts for Regent hotels in Melbourne, Auckland, London and Fiji, the Inn on the Park in Toronto and the Four Seasons Hotel in San Francisco (which together accounted for a reduction of $4.2 million of fee revenues). Adjusting for the effect of these terminated management contracts and the effect of newly opened hotels and development projects, fee revenues would have increased $9.6 million or 12.4% in 1996, compared to 1995. Incentive fees contributed 20.2% of the total fee revenues in 1996, compared to 16.8% in 1995.

Total revenues of all managed hotels increased to $1.9 billion in 1996, compared to $1.8 billion in 1995. Growth in revenue was driven by continued strong performance in all major geographic markets. Fully opened hotels under management by the Corporation during all of both 1995 and 1996 showed an average increase of approximately 12% in yield compared to 1995, primarily as a result of an increase in room rates. The strong yield increases realized in 1996, combined with enhanced operating efficiencies, resulted in increases of approximately 21% in the gross operating profit of fully opened hotels in 1996, compared to 1995.

The Corporation expects yield to grow over 5% in 1997, compared to 1996, in hotels fully opened in all of both years, primarily due to an increase in room rates. Gross operating profit of the same hotels is expected to rise over 9%, primarily due to the increase in yields together with expected continued improvements in operating efficiencies.

As a result of: (i) the estimated improvements in hotel yield and gross operating profit, (ii) the fees to be earned from the three new hotels in California, Bali and India and two recently acquired existing hotels in Paris and Atlanta, and (iii) a full year of fee revenues from recently opened hotels in Berlin, Istanbul and Hawaii, offset by (iv) the reduction of fee revenues in 1997 as a result of four management contracts terminated during 1996, the Corporation estimates that fee revenues should increase by approximately 6% in 1997 over 1996.

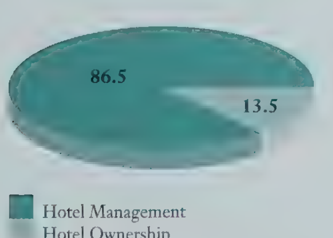
Yield of Core Hotels[1]

[1] *Hotels under management for full year in both 1995 and 1996*

General and Administrative Expenses

General and administrative expenses increased by $2.3 million or 6.4% in 1996, compared to 1995, partly as a result of the incentives earned by management in respect of the financial performance of the Corporation in 1996. No profit-based incentives were earned in 1995. In 1997, the objective is to keep the increases in general and administrative expenses to approximately 5%.

Earnings Before Other Operating Items
(percent)



Hotel Management Earnings

As a result of the changes in fee revenues and expenses discussed above, the Corporation's hotel management earnings increased by $3.9 million (7.6%) to $55.7 million in 1996. Hotel management earnings represented 86.5% of the Corporation's earnings before other operating items in 1996, compared with 77.6% in 1995. It is estimated that this percentage will decline in 1997 to approximately 82%, due to higher expected earnings from hotel ownership operations as a result of the consolidation of the operating results of The Pierre in New York, the Four Seasons Hotel Vancouver and the Four Seasons Hotel Berlin.

Hotel Ownership Operations

Hotel ownership earnings in 1996 declined 42.0% to $8.7 million, compared to $14.9 million in 1995. This decline was due to the sale of the Corporation's 50% ownership interest in the Four Seasons Hotel London in December 1995, which previously had been proportionately consolidated in hotel ownership operations. The Corporation consolidated $8.7 million of operating earnings from the London hotel in 1995.

A major portion of hotel ownership operations in 1996 was dividend distributions from the Corporation's 25% ownership interest in The Regent Hong Kong, which is accounted for on a cost basis. The hotel's yield increased 14.8% in 1996, due to the combination of strong occupancy improvement and increased room rates. This strong yield increase resulted in a 26.5% increase in the gross operating profit for the hotel in 1996. As a result, the distributable earnings for The Regent Hong Kong were $9.2 million in 1996, representing a 52% increase over 1995.

Hotel ownership earnings are expected to increase by approximately 50% in 1997 over 1996 primarily due to: (i) the consolidation of anticipated positive operating earnings before other operating items from The Pierre in New York and the Four Seasons Hotel Vancouver in line with the earnings before other operating items of these hotels in 1996 (see statements of operations on page 32), offset by (ii) start-up losses relating to the Four Seasons Hotel Berlin leasehold interest (see "Four Seasons Hotel Berlin" on pages 32 and 33).

Other Items

Depreciation and Amortization

Depreciation and amortization expense in 1996 was $14.0 million, compared to $16.9 million in 1995. This reduction of 17.1% is attributable primarily to the sale of the Four Seasons Hotel London at the end of 1995. Depreciation and amortization is expected to increase in 1997 compared to 1996 by approximately 20% primarily due to the consolidation of The Pierre in New York and the Four Seasons Hotel Vancouver in 1997.

Net Interest Expense

Net interest expense in 1996 declined 26.9% to $18.8 million from $25.7 million in 1995. This decline is attributable to: (i) lower debt levels, (ii) lower interest rates (Four Seasons' weighted average cost of debt in 1996 was 8.6% compared to 8.9% in 1995), and (iii) $2.8 million of interest income earned in 1996 on the £12.6 million of 10% secured cash flow bonds received in 1995 as consideration on the sale of the Four Seasons Hotel London.

Net interest expense is expected to decline by approximately 40% in 1997. This significant reduction is due to a combination of additional interest income and reduced interest expense. Additional interest income is expected to be earned on excess cash balances generated from the equity issuance by FSHI in February 1997, together with interest income from the loan to be made in 1997 to the owner of the Hotel George V in Paris. Gross interest expense will be substantially reduced due to the application of proceeds from the equity issue and the sale of the Four Seasons Hotel Toronto against long-term debt (see note 10 to the consolidated financial statements.)

Income Tax Expense

The Corporation's effective tax rate in 1996 was 6.2%, compared with a 16.0% effective tax rate in 1995 (excluding the provision for loss of $95 million). The low effective tax rate is due primarily to the utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995 and a reduction of income tax expense in the United Kingdom in 1996 as a result of the sale of the ownership interest in the Four Seasons Hotel London in December 1995. The utilization of the benefits of the unrecorded tax losses created by the write-down in hotel investment values in 1993 and 1995 is expected to keep the effective tax rate below 10% for the next two years.

Net Earnings and Earnings per Share

Net earnings and earnings per share in 1996 were $29.9 million and $1.04 per share, respectively. The net loss in 1995 was $74.6 million and the net loss per share was $2.62. Excluding the $95 million provision, normalized net earnings would have been $20.4 million and normalized earnings per share would have been $0.72 in 1995. The 46.2% increase in normalized net earnings and 44.8% increase in normalized earnings per share represented strong growth in hotel management operations and lower interest costs resulting from declining debt levels and lower interest rates.

Year ended December 31, 1995 compared to year ended December 31, 1994.

Hotel Management Operations

Fee Revenues

Fees revenues from hotel management operations increased $8.6 million, or 10.7%, in 1995 to $88.5 million from $79.9 million in 1994. The majority of the increase is due to an improvement in yield of approximately 10%, for fully opened hotels under management by the Corporation during all of both 1994 and 1995, to $199 from $182 and an average increase of over 20% in gross operating profit of fully opened hotels in 1995, compared to 1994. In 1995, incentive fees contributed 17% of total fee revenues, compared to 15% in 1994.

The increase in fee revenues was a direct result of the improved performance of hotels managed by Four Seasons. Total revenues of all managed hotels increased $139.8 million to $1.84 million in 1995 from $1.70 billion in 1994. The 1995 average yield of all fully opened hotels under management during all of both 1994 and 1995 increased by approximately 10% over the 1994 average yield, reflecting the results of continued strong demand growth, with virtually no new supply of luxury hotel rooms in many of Four Seasons' primary markets. The increase in yield reflected an increase of approximately 8% in average room rates over 1994 levels and an increase of one occupancy point to 71.2% from occupancy levels achieved in 1994. Strong economic growth in North America and Asia allowed most hotels to achieve yield increases in excess of inflation. In 1995, Four Seasons improved its market share in most of its key markets with yield results ahead of its competition in all of the markets in which this type of information is available. In addition, the Corporation earned US$1.5 million ($2.1 million) as a licensed fee in connection with the residential development adjacent to the Regent Jakarta.

General and Administrative Expenses

General and administrative expenses increased 8.0% to $36.7 million in 1995, compared to $34 million in 1994, primarily due to increased marketing expenses, travel and entertainment expenses and salaries and benefits.

Hotel Management Earnings

Earnings from hotel management operations increased to $51.8 million in 1995, 13% higher over the prior year, and contributed approximately 78% of the Corporation's total earnings before other operating items in 1995, compared with 76% in 1994. The profit margin in hotel management operations increased to 58.5% in 1995 from the 1994 level of 57.4%. This improvement in margin reflected the operating leverage inherent in hotel management operations.

Hotel Ownership Operations

Substantially all of the revenues and earnings from hotel ownership operations in 1995 and 1994 were generated from the Corporation's equity interest in the Four Seasons Hotel London, The Regent Hong Kong and The Ritz-Carlton Hotel Chicago. Earnings before other operating items from hotel ownership operations were $14.9 million in 1995, compared to $14.2 million in 1994. This improvement is a result of improved gross operating profit in the Four Seasons Hotel London (13.1% over 1994) and The Ritz-Carlton Hotel Chicago (12.9% over 1994). These increases were offset by lower distributions from The Regent Hong Kong, where yield declined approximately 1% due to lower occupancies. As a result of these effects and an increase in retained earnings, total distributions received from The Regent Hong Kong decreased 11% to $6.0 million in 1995. The total earnings for the Four Seasons Hotel London included in the hotel ownership operations for 1995 were $8.7 million.

Other Items

Depreciation and Amortization

Depreciation and amortization expense was $16.9 million in each of the years ended December 31, 1995 and 1994. The majority of the amortization expense related to the assets involved in connection with the Regent acquisition, including the cost of management contracts and amounts allocated to the Regent trademark and trade names.

During 1995, the Corporation changed its method of amortizing the cost of the hotel management contracts acquired as part of the Regent acquisition from the increasing-charge method to the straight-line method. This change results in the Corporation's accounting policy being consistent with other publicly traded hotel management and franchising companies in the United States. The effect of this change in accounting policy was to increase the amortization charge by $65,000 in 1995 and $1.2 million in 1994.

Provision for Loss

In December 1995, in conjunction with the completion of the asset disposition programme, the Corporation recorded a non-cash provision of $95 million, primarily against its leasehold investments in its hotels in Vancouver, Toronto and The Pierre in New York (see note 2 to the consolidated financial statements).

Net Interest Expense

Net interest expense decreased by $1.5 million to $25.7 million in 1995 from $27.2 million in 1994. Interest expense declined 8.6% to $26.9 million in 1995 from $29.4 million in 1994 due to lower debt levels (approximately $34.4 million lower, primarily as a result of hotel dispositions). Interest savings from reduced debt levels were offset by higher interest rates, with Four Seasons' actual weighted average cost of debt increasing to 8.9% in 1995 compared to 8.0% in 1994. Interest income decreased from $2.2 million in 1994 to $1.2 million in 1995, primarily reflecting the loss of the interest income from the note receivable related to the Four Seasons Hotel Austin, which was repaid on the sale of the hotel in November 1994.

Income Tax Expenses

The difference between the expected income tax recovery and actual income tax expense for 1995 was primarily due to lower foreign tax rates and the provision for loss of $95 million which was not tax effected (see note 12 to the consolidated financial statements).

Net Earnings (Loss) and Earnings (Loss) per Share

The net loss for 1995 was $74.6 million and the net loss per share was $2.62. Excluding the $95 million provision, net earnings would have been $20.4 million and earnings per share would have been $0.72. Net earnings for 1994 were $6.8 million and earings per share were $0.24. Excluding the $6.8 million cost associated with the sale of shares, net earnings in 1994 would have been $13.6 million and earnings per share would have been $0.49. The 50% increase in net earnings (excluding the provision and costs associated with the sale of shares described above) represented strong growth in hotel management operations and lower interest costs resulting from declining debt levels.

LIQUIDITY

Four Seasons funds its capital and operating requirements with a combination of operating cash flow, debt and equity financing and proceeds from sales of hotel investments and other assets. The Corporation utilizes these sources of funds to make capital investments to obtain new, long-term management agreements, to fund its share of hotel capital improvements and operating requirements where it holds an equity interest and to make principal and interest payments on corporate debt.

Since the commencement of the asset disposition programme in 1993, the Corporation has sold its equity and debt positions in 14 hotel real estate investments for total net proceeds of approximately $146 million, which were used primarily to reduce corporate debt. The Corporation also reduced its commitments and lease obligations and guarantees by a further $91 million. The total net proceeds received approximated the proceeds estimated in the 1993 and 1995 provisions, and therefore no further accounting adjustments were required. As a result of the disposition of a substantial portion of Four Seasons' hotel investment portfolio, Four Seasons' spending requirements declined significantly in 1995 and 1996. Future spending requirements will be limited to Four Seasons' share of normal maintenance capital and operating requirements (to the extent not funded by the relevant hotel's operating cash flow) and for investments to obtain new management agreements. In 1997, the Corporation expects total capital spending of approximately $29 million, including dividends and those items noted on page 40 and 41 but excluding the amount to be advanced in connection with the acquisition of the management agreement for the Hotel George V in Paris (see "Hotel Ownership Operations" on page 23).

Total debt, net of cash, has declined from a peak level of approximately $373 million in June 1994 to $225 million as at December 31, 1996. This reduction in debt was achieved through the application of asset sale proceeds and cash generated by operations. As at December 31, 1996, approximately 63% (73% at December 31, 1995 and 76% at December 31, 1994) of Four Seasons' long-term debt was at fixed interest rates. The remaining floating rate debt as at December 31, 1996 was based on US LIBOR plus a spread averaging approximately 1%.

The Corporation has paid down all of its existing bank indebtedness with a portion of the net proceeds of $114 million from the public offering of 4,370,000 Limited Voting Shares of FSHI, completed in February 1997. After taking into account the offering and the closing of the sale of the Four Seasons Hotel Toronto and repayment of the bank indebtedness, total corporate debt on a pro-forma basis was approximately $172 million and total cash reserves on a pro-forma basis increased to approximately $74 million. In addition, the Corporation currently has US$100 million available in undrawn committed bank facilities. The Corporation believes that the bank operating credit facility, which matures in March 1998, will be extended and, when combined with internally generated cash flow, will allow it to finance all of its operating needs and commitments to new investments to achieve its growth objectives.

Operating Cash Flow

Cash flow from operations was $43.7 million in 1996, compared to $38.7 million in 1995. The working capital generated from hotel management operations was $4.5 million higher in 1996 than in 1995, reflecting the improvement in hotel management earnings discussed above. This improvement was more than offset by a reduction in working capital generated from hotel ownership operations of $8.3 million in 1996, due to the sale of the 50% interest in the Four Seasons Hotel London in 1995. Net interest paid decreased by $4.8 million in 1996, compared to 1995, due to lower debt levels and interest rates.

For the year ended December 31, 1995, cash flow from operations was $38.7 million, compared to $44.8 million for 1994. The working capital generated by the hotel management and ownership operations increased by $8 million or 13% in 1995, compared to 1994. This increase was offset by $7.4 million of interest costs accrued in 1994, which were paid in the first quarter of 1995, and by an increase in non-cash working capital of $5.8 million.

Operating cash flow is budgeted to be approximately $60 million in 1997, as a result of the anticipated increases in cash flow from hotel management and ownership operations, combined with significantly lower net interest costs.

Fixed Asset Additions and Improvements

Owners of hotels managed by Four Seasons are contractually responsible for funding the capital requirements of the hotels, including major guest room and common area renovations, and for maintaining capital reserves to fund ongoing annual maintenance capital expenditures required by the management agreements. The owners annually spend an average of 4% of gross revenues of the hotels on capital expenditures to maintain properties at the Four Seasons standard (other than in newly constructed or recently renovated properties where the annual amounts generally range from 1% to 2% in the years of operation following opening and major refurbishment). Additional funds are made available for special capital projects as required to maintain the luxury standards specified in the Four Seasons' hotel management agreements. Capital expenditures are funded by working capital generated from hotel operations and through advances from the hotel owners. Four Seasons' share, as a hotel owner, of the funding of these capital expenditures was $1.3 million, $2.4 million and $1.6 million in 1996, 1995 and 1994, respectively, for its consolidated hotels and corporate offices. In addition, Four Seasons incurred capital expenditures of $5.9 million, $5.5 million and $3.7 million in 1996, 1995 and 1994, respectively, for the hotels contributed to FRA Properties. Capital expenditures were immaterial for those hotels in which Four Seasons has a minority equity interest or pursuant to management contract obligations.

For 1997, Four Seasons has budgeted capital expenditures of approximately $7.5 million in its consolidated hotels (including The Pierre and the Four Seasons Hotel Vancouver) and corporate offices, and immaterial amounts in those hotels in which it has a minority equity interest. This level of capital spending represents normal levels and is expected to continue at this level over the near term.

Investments in and Advances to Managed and Owned Hotels

During 1996, operating cash flow of approximately $6.3 million was generated by FRA Properties, which represented an increase of approximately $400,000 over 1995, which in turn was an increase of over $5.3 million

compared to 1994. These funds, together with amounts advanced by Four Seasons of $1.4 million in 1996 ($8.6 million in 1995 and $12 million in 1994), were used to fund approximately $5.9 million ($5.5 million in 1995 and $3.7 million in 1994) of capital expenditures and $1.8 million ($8.9 million in 1995 and $8.8 million in 1994) of principal and interest on property specific debt. The 1996 total funding by the Corporation of $1.4 million represents a reduction of $7.2 million from 1995, as a result of improved operating cash flows from the hotels and reduced debt service requirements. Capital requirements for the Four Seasons Hotel Vancouver and The Pierre in New York in 1997 are included in "Fixed Asset Additions and Improvements", and are expected to be funded from hotel operating cash flow, assuming no material deterioration in prevailing market conditions in these cities.

For hotels in which the Corporation has less than a 20% interest, it invested $14.1 million in 1996 ($5.8 million in 1995 and $1 million in 1994) to fund operating and capital requirements, primarily in recently opened hotels or hotels under construction or development. Of the $14.1 million advanced in 1996, approximately $6.9 million related to a hotel under development in Cairo, approximately $3.2 million related to a resort and a vacation ownership project under development in Aviara and approximately $2.7 million related to a resort under development in Scottsdale. Of the $5.8 million advanced in 1995, approximately $3.2 million was advanced to the Four Seasons Resort Nevis, primarily representing the Corporation's 15% share of a US$15 million repayment of property debt. The Corporation disposed of its interest in this resort in 1996, but continues to manage the resort under a long-term management agreement.

Additional investments in hotels in which the Corporation has, or will have, less than a 20% equity interest are expected to be approximately $8 million in 1997. The Corporation received $13 million net cash proceeds in January 1997 upon the closing of the sale of the Four Seasons Hotel Toronto.

Long-Term Receivables

Four Seasons advanced approximately $9.7 million for long-term receivables in 1996. Of the $9.7 million advanced in 1996, approximately $8.7 million related to the repayment of a note payable for which Four Seasons was contingently liable. As a result of the termination of the management of The Regent Auckland in 1996, Four Seasons was repaid approximately $4.6 million of advances and deferred management fees. In addition, upon the sale of the Four Seasons Resort Nevis in November 1996, a loan of US$3 million plus accrued interest was repaid to the Corporation. During 1995, the Corporation's net investment in long-term receivables increased by $32.9 million compared to a increase of $10.4 million in 1994. The increase in 1995 included the secured cash flow bond of $26.6 million (£12.6 million) received on the sale of the Corporation's 50% interest in the Four Seasons Hotel London. Four Seasons also advanced $3.8 million to The Regent Jakarta in 1995. This advance completed the Corporation's commitment to lend US$5 million to this hotel, which partially opened during 1995. This loan is convertible into a 5% equity interest in the hotel, subject to regulatory approval. The Corporation has agreed to advance a £15 million loan in 1997 to an affiliate of Kingdom in connection with the expected acquisition of the long-term management agreement for the Hotel George V in Paris. The Corporation has also agreed to advance an additional £2 million in 1997 to assist with the costs of the repositioning and relaunch of the hotel. In addition, the Corporation will advance a total of US$7.5 million in 1997 and 1998 as a loan to the owner of the Four Seasons Hotel Atlanta in connection with the long-term management agreement acquired in 1997.

OPERATING RISKS

Significant risks associated with Four Seasons' operations are summarized below:

Lodging Industry Conditions

Four Seasons focuses exclusively on the luxury segment of the hotel industry, which is subject to operating risks inherent in the lodging industry. These risks include, among other things, changes in general and local economic conditions, periodic overbuilding in the industry or a specific market, varying levels of demand for rooms and related services (including food and beverage and function space), competition from other hotels, changes in travel patterns, the recurring need for renovation, refurbishment and improvement of hotel properties, changes in wages, prices, construction and maintenance costs that may result from inflation, government regulations and changes in interest rates, the availability of financing for operating or capital requirements, natural disasters, extreme weather conditions, labour disputes, political instability and terrorism and their effects on travel. The industry also is subject to seasonal fluctuations, resulting in variances in the Corporation's quarterly fee revenues and operating results. Four Seasons operates luxury hotels and resorts in many areas of the world and its revenues are dependent upon the revenues of individual hotels and resorts derived from all sources. The above-listed conditions can from time to time have a major adverse impact upon individual hotels or particular regions. A prolonged period of economic recession would adversely affect the Corporation's results of operations.

Competition

The luxury segment of the hotel industry is subject to intense competition, both for guests and for the acquisition of new management contracts. Competition for guests arises primarily from luxury hotel chains, individual luxury hotels and resorts and a limited number of luxury properties operated by larger hotel chains. That competition is based on brand name recognition, location, room rates and quality of service and accommodations. Demographic, geographic and other changes in specific market conditions could adversely affect the convenience or desirability of the locales in which hotels and resorts that are managed by Four Seasons are located.

Four Seasons competes for hotel management opportunities with other hotel operators. Four Seasons believes that its ability to obtain management agreements is based primarily on the value and quality of its management services, brand name recognition and the economic advantages to the hotel owner of retaining Four Seasons' management services and using its brand names. Four Seasons also believes that an owner's assessment of the economic advantages of retaining Four Seasons' management services and using its brand names is, in part, a function of the success of the hotels currently under management by Four Seasons. Competitive factors also include relationships with hotel owners and investors, marketing support, reservation system capacity and the ability to make investments that may be necessary to obtain management contracts. Four Seasons' failure to compete successfully for expansion opportunities or to attract and maintain relationships with investors who currently own hotels could adversely affect its results of operations.

Dependence on Management Agreements

Management agreements expire or are acquired, terminated or re-negotiated in the ordinary course. Failure to obtain new management agreements or maintain existing management agreements could adversely affect the Corporation's results of operations. Four Seasons manages hotels for various hotel owners subject to the terms of each hotel's management agreement. Those agreements generally can be terminated by the non-defaulting

party upon default in payment or unremedied failure to comply with the terms of the agreement. Most of the management agreements are subject to performance tests that, if not met, could allow the agreement to be terminated by the owner prior to the expiration of its term. The failure to maintain the standards specified in the agreement or to meet the other terms and conditions of an agreement could result in the loss or cancellation of a management agreement. Typically, but not in all cases, Four Seasons has certain rights to cure a default to avoid termination. Some management agreements also can be terminated if the hotel is sold by the owner to a new owner that does not want to retain the existing agreement. In certain cases these contracts provide for a termination pay-out upon cancellation of the agreement.

In the event of bankruptcy of a hotel and foreclosure, a management agreement may be terminated in most jurisdictions, unless, to the extent permitted by local bankruptcy laws, the lender has executed a non-disturbance agreement. Four Seasons generally has non-disturbance agreements with the lenders to owners of hotels that it manages. Where no non-disturbance agreement is in place, the risk of loss of a management agreement increases where debt that cannot be serviced adequately is incurred by the hotel owner at the hotel level. In some jurisdictions, particularly the United States, management agreements have been construed by courts to create an agency relationship that is terminable by the owner, notwithstanding any provision of the agreement that purports to make the agreement not terminable. In such circumstances, the management company would generally have an unsecured claim for breach of contract against the owner of the hotel or its trustee in bankruptcy.

Management agreements for hotels and resorts managed by the Corporation currently have remaining terms (including options to extend at the Corporation's election) averaging approximately 58 years for Four Seasons hotels and resorts and approximately 18 years for Regent hotels and resorts. Only three management agreements have remaining terms of less than ten years. Two of these relate to The Regent Taipei and The Regent Bangkok, which expire in 2000 and 2005 respectively. For the years ended December 31, 1996 and 1995, these two hotels contributed, in aggregate, $4.8 million and $4.4 million, respectively, in fee revenue. The third relates to The Regent Hong Kong, where the initial term of both the management agreement and the operating lease expire in 2000. There is an option to extend the lease agreement for an additional ten years. The Corporation owns a 25% interest in the corporation that owns the operating lease for the hotel and has entered into the management agreement. However, the owner of the 75% interest in the lessee corporation is a company controlled by the landlord. The Corporation does not control the lease extension rights, however, it intends to take whatever action may be necessary to protect its minority interest in the lessee and its interest in the management agreement. There can be no assurance as to the result of the assertion of these rights. Hotel management fees and distributions from The Regent Hong Kong, in aggregate, accounted for approximately $15.7 million and $11.6 million of the Corporation's consolidated revenues in 1996 and 1995, respectively.

The Corporation received notices in 1992 that the owners of two managed hotels are asserting that the Corporation's acquisition of Regent, which managed a hotel in the same city, resulted in a breach of the radius restrictions in their respective management agreements. The Corporation has been in discussions since 1992 with the owners to resolve these issues. Four Seasons continues to manage these properties and to receive fee revenues under the applicable management agreements.

Dependence on Hotel Owners

As a result of the strategic decision of Four Seasons to focus on management, as opposed to ownership, of hotel properties, Four Seasons' growth opportunities are dependent in part on its ability to establish and maintain satisfactory relationships with existing and new hotel investors. Those growth opportunities also are dependent on access to capital by these investors. Currently, only two owners have interests in any combination of hotels and resorts managed by Four Seasons that represent in excess of 10% of total consolidated revenues of the Corporation. One owner has interests in The Ritz-Carlton Hotel Chicago and the Four Seasons hotels in Chicago, Houston and Seattle and another owner has an interest in The Regent Hong Kong; together the hotels in which these two owners have interests accounted (by way of management fees, hotel revenues and distributions in respect of the Corporation's ownership interests) for approximately 35% of the Corporation's total consolidated revenues in 1996. A failure by Four Seasons to maintain satisfactory relationships with any owner of a significant number of hotels could have a material adverse effect on the Corporation's results of operations.

Risk Associated with Expansion, Growth and New Construction

An element of Four Seasons' business strategy is to increase the number of hotels and resorts under management. That expansion is dependent upon a number of factors, including the identification of appropriate management opportunities, competing successfully for the management agreements relating to those opportunities, availability of financing for new developments and timely completion of construction of new hotel and resort properties (or the refurbishment of existing properties) that are, or are to be, managed by Four Seasons.

From time to time, the hotel industry has experienced periods during which financial institutions have been reluctant to provide financing for the construction of real estate properties, including hotels. The inability to obtain financing for a project will cause cancellation of, or short term interruption in, the progress or completion of properties under construction or development. Additionally, any construction project entails significant construction risks that could delay or result in a substantial increase in the cost of construction. The opening of newly constructed properties, in particular, is contingent upon (among other things) receipt of all required licences, permits and authorizations, including local land use permits, building and zoning permits, health and safety permits and liquor licences. Changes or concessions required by regulatory authorities also could involve significant additional costs and delay or prevent completion of construction or opening of a project. As a result of the global nature of Four Seasons' business, these regulatory matters arise in a number of jurisdictions, many of which have distinctive regulatory regimes.

Contingent Liabilities

Four Seasons currently has guaranteed third party debt for two hotels: US$5 million (approximately $6.9 million) with respect to principal and interest relating to the construction financing for the Four Seasons Resort Aviara and DM7 million (approximately $6 million) relating to the construction financing for the Berlin multi-use project that includes the Four Seasons Hotel Berlin. Four Seasons has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to afford lenders to the project access to distributions that would be received by the Corporation in respect of its ownership interest after default in respect of debt related to the development. Other such guarantees, which are not material, have been entered into in the ordinary course in connection with the development of the project. Any amounts that the Corporation believes it is probable that it will have to pay on these guarantees have been provided for in the consolidated financial statements.

Until 1982, FSHL held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22 million (of which approximately $20.6 million was outstanding as at December 31, 1996) in connection with the property and FSHL provided a several guarantee with respect to the financing. FSHL sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of FSHL's obligations under the mortgage. FSHL has been advised by the mortgagee that it anticipates a default under the mortgage. The Corporation believes that, as a result of, among other things, the sale by FSHL of its interest in the property and the resulting obligations of the purchaser, any obligations of FSHL to the mortgagee should be offset by corresponding claims against the purchaser.

There is no assurance that Four Seasons will not be required to pay an amount in excess of its current expectations in respect of any of these contingent liabilities.

Investments and Advances

The Corporation has made investments in, and loans to, some of the hotels and resorts that it manages to enable it to acquire the management contracts for those properties. Currently, Four Seasons holds an ownership or leasehold interest in, or has advances to, 11 of the 38 hotels and resorts that it manages and has made, or expects to make, investments in, or advances to, seven of the 14 projects under construction or development. The book value of those investments and advances as at December 31, 1996 was approximately $90 million.

Four Seasons is subject to risks generally related to owning and leasing real estate in respect of these properties. These risks include, among others, adverse changes in general or local economic conditions, local real estate market conditions, property and income taxes, interest rates, the availability, cost and terms of financing, liability for long term lease obligations, the potential for uninsured casualty and other losses, the impact of present or future legislation or regulation (including those relating to the environment), adverse changes in zoning laws and other regulations, civil unrest and political instability. In addition, investments in real estate are relatively illiquid and the ability of the Corporation to dispose of its ownership interests, particularly its leasehold interests, in response to changes in economic and other conditions may be limited. Any of these factors could result in material operating losses by a particular hotel or resort and possibly the loss of the Corporation's equity investment in the property or the inability to collect loans outstanding. Holding an interest in a hotel also introduces risks associated with funding of capital expenditures and the Corporation's proportionate share of any operating losses. Where working capital reserves provided by hotel operations are insufficient, debt service, major repairs, renovations, alterations or other capital expenditures generally must be funded by the owners of the hotels and resorts, including in some cases Four Seasons.

Government Regulation

Four Seasons is subject to laws, ordinances and regulations relating to, among other things, environmental matters, the preparation and sale of food and beverages, accessibility for disabled persons and general building and zoning requirements in the various jurisdictions in which Four Seasons manages hotels and resorts. Owners and managers of hotels also may be subject to laws governing the relationship with hotel employees, including minimum wage requirements, overtime, working conditions and work permit requirements. Compliance with these laws can affect the revenues and profits of hotels managed by Four Seasons or otherwise adversely affect Four Seasons' operations.

Four Seasons, as the current or previous owner or operator of certain hotels, could be liable for cleanup of contamination and other corrective action under various laws, ordinances and regulations relating to environmental matters. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the condition requiring environmental response. The presence of contamination from hazardous or toxic substances, or the failure to remediate a contaminated property properly, may affect an owner's ability to sell or rent the property, to use the property for its intended purpose, or to borrow using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the cost of removal or remediation of substances at the disposal or treatment facility regardless of whether the facility is or was owned or operated by them. In connection with the operation and ownership of various hotels, Four Seasons could be held liable for the cost of remedial action with respect to environmental matters. Four Seasons is not aware of any potential material environmental liabilities for which Four Seasons will be responsible with respect to any of the hotels in which it currently has, or previously had, an ownership interest.

Pursuant to the management agreements to which Four Seasons is a party, the owner is responsible for the costs and expenses of the employees at each hotel and for all costs, expenses and liabilities incurred in connection with the operation of the hotel, including compliance with government regulations. However, Four Seasons may be contingently liable for certain liabilities in respect of which it does not maintain insurance, including certain workers' compensation claims, environmental liabilities and, in respect of hotels in the United States, claims arising under the Americans with Disabilities Act.

Four Seasons obtains indemnities from the owners of the hotels that it manages in respect of these liabilities. The value of those indemnities is dependent upon the financial condition of the owners that have provided them.

Political Risk

Four Seasons currently manages and/or has an equity interest in hotels and resorts in 16 countries and currently has development plans to open hotels and resorts in six additional countries. Some of these countries may, from time to time, expose the related assets and revenues to political risk. Currently, the only significant risk that has been identified by management of Four Seasons relates to the assumption of control of Hong Kong by the government of The People's Republic of China on July 1, 1997. Management does not currently believe that this event will affect significantly the ability of Four Seasons to continue to operate The Regent Hong Kong or the results of operations of that hotel. However, there can be no assurance as to the impact of the change of control of Hong Kong.

Insurance

All hotels and resorts managed by Four Seasons are insured against property damage, business interruption and liability at the expense of the owner of the hotel. Under these policies Four Seasons also is insured against loss of fee income in the event of a temporary business interruption at any of the hotels and resorts that it manages. In addition, Four Seasons obtains indemnities from the owners of the hotels that it manages in respect of damages caused by acts, omissions and liabilities of the employees of the hotel or of Four Seasons, other than damages resulting from certain actions of Four Seasons and certain senior management personnel. If Four Seasons were held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial conditions could be materially and adversely affected.

Currency Exposure

Four Seasons has entered into management agreements with respect to hotels throughout the world and reports its results in Canadian dollars; however, its relevant currency risk is in US dollars, as more than half of its revenues, assets and debt currently are US dollar denominated or pegged to the US dollar. In 1995, approximately 56% of the Corporation's consolidated revenues were US dollar denominated or pegged to the US dollar. In 1996, the Corporation's exposure to US dollars increased to 72% of consolidated revenues primarily as a result of the loss of ownership revenues due to the sale of the Four Seasons Hotel London in December 1995. Four Seasons uses all of its US dollar cash flow for reinvestment in US dollar assets and to service its US dollar debt and other obligations. The Corporation earned 22% of its consolidated revenues in 1996 in thirteen foreign currencies not pegged to the US dollar. None of these currencies individually exceeded 3% of Four Seasons' consolidated revenues.

Certain currencies are subject to exchange controls which, in practice, have never resulted in a restriction of the payment of management fees to Four Seasons. In addition, certain of these currencies are not freely traded and are relatively illiquid. To date, Four Seasons has not incurred any material losses resulting from an inability to convert these foreign currencies at favourable exchange rates. Management attempts to minimize its foreign currency risk by monitoring its cash position, keeping fee receivables current, and monitoring the political and economic climate in each country. Four Seasons generally does not purchase hedging instruments to manage its currency exposure. In certain hotels, the foreign currency risks are further mitigated by pricing room rates in US dollars.

Seasonality

Four Seasons' hotels are affected by normally recurring seasonal patterns and, for most of the hotels, demand is lower in December through March than during the remainder of the year. The Corporation's hotel ownership operations are particularly affected by seasonal fluctuations, with lower revenue, operating profit and cash flow in the first and fourth quarters. Hotel management operations also are somewhat seasonal in nature, as fee revenues are affected by the seasonality of hotel revenues and operating results. Urban hotels generally experience lower revenues and operating results in the first and fourth quarters. However, this is offset, to some degree, by increased travel to resorts in those months and is expected to be offset to a greater extent as the portfolio of resort properties managed by Four Seasons increases.

The consolidation of the Four Seasons Hotel Vancouver and The Pierre in New York in 1997 is not expected to have a material impact on the Corporation's annual consolidated financial position or net earnings. However, due to the seasonality of hotel operating earnings, the consolidation of these hotels is expected to have an adverse impact on the Corporation's results in the first half of 1997, as compared to the same period in 1996.

CORPORATE INFORMATION

DIVIDEND POLICY

The Board of Directors of FSHI has established a policy of paying a semi-annual dividend to holders of its shares. FSHI paid until October 3, 1996 semi-annual cash dividends of $0.055 per Limited Voting Share and Variable Multiple Voting Shares since 1990. The payment of dividends in the future is subject to the Corporation's earnings and financial condition and such other factors as FSHI's Board of Directors may deem relevant. There are no restrictions that prevent FSHI from continuing to pay a semi-annual dividend of $0.055 per Limited Voting Share. However, the payment of dividends in a greater amount per Limited Voting Share may require that the Corporation meet certain tests contained in the indenture relating to its 9 1/8% Notes due July 1, 2000 at the time of the declaration of the dividend. Since October 3, 1996, the dividend entitlement in respect of the Variable Multiple Voting Shares has been reduced to 50%, on a per share basis, of the dividend entitlement on the Limited Voting Shares.

DIRECTORS AND OFFICERS

The following table sets forth certain information regarding each of FSHI's executive officers and directors:

Name and Residence	Position with FSHI	Principal Occupation
Isadore Sharp (1) *Toronto, Ontario*	Chairman, Chief Executive Officer and Director	Chairman and Chief Executive Officer, Four Seasons Hotels Limited
Edmond M. Creed *Toronto, Ontario*	Director	Retired executive
Frederick Eisen *Toronto, Ontario*	Director	President and Chief Executive Officer, The Eisen Corporation
H. Roger Garland *Toronto, Ontario*	Vice Chairman and Director	Vice Chairman, Four Seasons Hotels Limited
Charles S. Henry (1)(2)(3)(4) *New York, New York*	Director	President, Hotel Capital Advisers, Inc.
Murray B. Koffler (1)(2)(3) *Toronto, Ontario*	Director	Partner, The Koffler Group
J. Robert S. Prichard (3) *Toronto, Ontario*	Director	President, University of Toronto
Lionel H. Schipper (1)(2)(3) *Toronto, Ontario*	Director	President, Schipper Enterprises Inc.
John L. Sharpe *Toronto, Ontario*	President, Chief Operating Officer and Director	President and Chief Operating Officer, Four Seasons Hotels Limited
Benjamin Swirsky (1)(2)(3) *Toronto, Ontario*	Director	President and Chief Executive Officer, Slater Steel, Inc.
Shuichiro Tamaki *Tokyo, Japan*	Director	Advisor, Jowa Corporation
Simon M. Turner (4) *Rye, New York*	Director	Principal, Hotel Capital Advisers, Inc.
Christopher Wallis *Toronto, Ontario*	Executive Vice President and Director	Executive Vice President, Design and Construction, Four Seasons Hotels Limited
Douglas L. Ludwig *Toronto, Ontario*	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer and Treasurer, Four Seasons Hotels Limited
John B. Richards *Toronto, Ontario*	Executive Vice President	Executive Vice President, Four Seasons Hotels Limited
Craig O. Reith *Toronto, Ontario*	Vice President Finance and Assistant Treasurer	Vice President Finance and Assistant Treasurer, Four Seasons Hotels Limited
Kathleen Taylor *Toronto, Ontario*	Executive Vice President and Secretary	Executive Vice President, General Counsel and Secretary, Four Seasons Hotels Limited

(1) Member of the Compensation and Organization Committee
(2) Member of the Audit Committee
(3) Member of the Corporate Governance Committee
(4) Nominee of Kingdom, which has the right pursuant to an agreement with Triples Holdings Limited and Isadore Sharp to elect two directors to the FSHI's Board of Directors

Edmond M. Creed, Murray B. Koffler and Isadore Sharp have served as directors of Four Seasons Hotels Inc.'s predecessor corporation since January 9, 1978. Frederick Eisen, H. Roger Garland, John L. Sharpe, Benjamin Swirsky and Christopher Wallis were elected to the Board of Directors of Four Seasons Hotels Inc.'s predecessor corporation on October 1, 1985. Lionel H. Schipper was appointed to the Board of Directors on February 18, 1988. Shuichiro Tamaki was appointed to the Board of Directors on April 18, 1991. Charles S. Henry was appointed to the Board of Directors on November 11, 1994. J. Robert S. Prichard was appointed to the Board of Directors on March 6, 1996. Simon M. Turner was appointed to the Board of Directors on January 2, 1997.

All of the Directors will hold office until the next annual meeting of shareholders, or until their successors are elected or appointed. All of the officers and directors of Four Seasons Hotels Inc. have held their principal occupations for more than five years with the exception of: Frederick Eisen who was Senior Operating Officer of Bramalea Limited from April 1991 through August 1992, H. Roger Garland who was Executive Vice President prior to April 1995; Charles Henry who was Director, Real Estate Finance, with CS First Boston prior to July 1994; John Sharpe who was Executive Vice President prior to April 1995; Benjamin Swirsky who was Vice-Chairman of Bramalea Limited prior to April 1993; Shuichiro Tamaki who was Advisor of the Industrial Bank of Japan prior to August 1994 and Managing Director of the Industrial Bank of Japan prior to June 1992; Christopher Wallis who was Senior Vice President, Design and Construction prior to April 1995; Craig O. Reith who was Director, Corporate Finance and Assistant Treasurer prior to December 1993 and Director, Corporate Finance prior to January 1992; John B. Richards who was Senior Vice President, Marketing prior to April 1995; Kathleen Taylor who was Senior Vice President, General Counsel and Secretary prior to November 1995, Vice President and General Counsel prior to December 1993 and Corporate Counsel prior to January 1992; and Simon Turner who was a Director of the Investment Banking department of Salomon Brothers Inc. prior to May 1996.

The directors and senior officers of Four Seasons Hotels Inc., as a group, owned beneficially, directly or indirectly, or exercised control or direction over, the following number of Limited Voting Shares and Variable Multiple Voting Shares:

Description of Class	No. of Shares	Percentage of Class
Limited Voting Shares	809,484	2.8%
Variable Multiple Voting Shares	4,171,924	100%

ADDITIONAL INFORMATION

Four Seasons shall provide to any person, upon request to the office of the Secretary of Four Seasons Hotels Inc. at 1165 Leslie Street, Toronto, Ontario Canada M3C 2K8 (telephone (416) 449-1750):

(a) when the securities of Four Seasons Hotels Inc. are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been Filed in respect of a distribution of its securities,
   - (i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form,
   - (ii) one copy of the comparative financial statements of Four Seasons for its most recently completed financial year together with the accompanying report of the auditors and one copy of any interim financial statements of Four Seasons subsequent to the financial statements for its most recently completed Financial year,
   - (iii) one copy of the Management Information Circular of Four Seasons Hotels Inc. prepared for the most recent Annual Meeting of Shareholders, and
   - (iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that in either case Four Seasons may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Four Seasons Hotels Inc.

Additional information relating to Four Seasons, including directors' and officers' remuneration and indebtedness, interests of insiders in material transactions, principal holders of securities of Four Seasons Hotels Inc. and options to purchase securities is contained in Four Seasons Hotels Inc.'s Management Information Circular prepared for the most recent Annual Meeting of Shareholders. Additional financial information, including consolidated comparative audited financial statements for the years ended December 31, 1996 and 1995 is provided in Four Seasons' 1996 Annual Report. A copy of such documents may be obtained upon request from the Secretary of Four Seasons Hotels Inc. at the address and telephone number noted above.

Corporate Chart

The following chart illustrates Four Seasons' corporate structure, including certain partnerships in which Four Seasons has a significant interest, either directly or indirectly, and their jurisdictions of incorporation or organization.

Notes:

(A) The management of Four Seasons hotels in North America and the Four Seasons Hotel London is generally carried out by Four Seasons Hotels Limited.

(B) Direct.

(C) Indirect.

(D) The management of Four Seasons hotels outside North America (other than the Four Seasons Hotel London) is generally carried out by Four Seasons Hotels and Resorts B.V.

(E) The management of Regent hotels is generally carried out by Regent International Hotels Limited.

The management of Four Seasons Hotels Inc. is responsible for the preparation and integrity of the financial statements and related financial information of the Corporation and the selection of accounting principles appropriate to the Corporation's circumstances. The consolidated financial statements, notes and other financial information included in the Annual Report were prepared in accordance with accounting principles generally accepted in Canada. The statements also include estimated amounts based on informed judgements of current and future events, for items such as the useful lives of capital assets and provisions for impairment in the value of assets. These estimates are made with appropriate consideration of the materiality of the amounts involved. The financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management is also responsible for maintaining a system of internal controls and budgeting procedures which are designed to provide reasonable assurance that assets are safeguarded, transactions are executed and recorded in accordance with management's authorization, and relevant and reliable financial information is produced. To augment the internal control system, the Corporation maintains a programme of internal audits covering significant aspects of the operations.

The Corporation's Audit Committee is appointed by the Board of Directors annually. The Committee meets with the internal and independent auditors (who have free access to the Audit Committee) and with management, to satisfy itself that each group is properly discharging its responsibilities, and to review the financial statements, the independent auditors' report and other financial information appearing in the Corporation's Annual Report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements for issuance to the shareholders.

KPMG, the independent auditors appointed by the shareholders of the Corporation, have examined the financial statements in accordance with generally accepted auditing standards.

Isadore Sharp
Chairman and Chief Executive Officer
February 18, 1997

Douglas L. Ludwig
Chief Financial Officer,
Executive Vice President and Treasurer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Four Seasons Hotels Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations, deficit, cash provided by operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada
February 18, 1997

KPMG
Chartered Accountants

Years ended December 31, 1996 and 1995 *(In thousands of dollars except per share amounts)*	1996	1995
Consolidated revenues	$ 120,711	$ 135,587
HOTEL MANAGEMENT OPERATIONS:		
Fee revenues	$ 94,729	$ 88,460
General and administrative expenses	(39,057)	(36,709)
	55,672	51,751
HOTEL OWNERSHIP OPERATIONS:		
Revenues	17,639	42,430
Distributions from hotel investments	9,174	6,036
Expenses:		
Cost of sales and expenses	(17,310)	(32,187)
Fees to Hotel Management Operations	(831)	(1,339)
	8,672	14,940
Earnings before other operating items	64,344	66,691
Other operating items:		
Investment income	240	173
Depreciation and amortization	(13,991)	(16,883)
Provision for loss (note 2(b))	—	(95,000)
Earnings (loss) from operations	50,593	(45,019)
Interest expense, net (note 10(f))	(18,767)	(25,669)
Earnings (loss) before income taxes	31,826	(70,688)
Income tax expense (note 12):		
Current	(1,730)	(3,393)
Deferred	(230)	(490)
	(1,960)	(3,883)
Net earnings (loss)	$ 29,866	$ (74,571)
Earnings (loss) per share	$ 1.04	$ (2.62)

See accompanying notes to consolidated financial statements.

December 31, 1996 and 1995 *(In thousands of dollars)*	1996	1995
ASSETS:		
Current assets:		
Cash and cash equivalents	**$ 15,394**	$ 36,767
Receivables (note 3)	**51,212**	21,571
Inventory	**1,629**	505
Prepaid expenses	**1,625**	915
	69,860	59,758
Long-term receivables (note 4)	**41,429**	39,553
Investments in hotel partnerships and corporations (notes 2 and 5)	**62,724**	76,191
Fixed assets (note 6)	**33,150**	32,120
Investment in management contracts (note 7)	**98,437**	92,615
Investment in trademarks and trade names (note 8)	**59,999**	60,908
Other assets (note 9)	**19,688**	20,488
	$ 385,287	$ 381,633
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 54,670**	$ 54,095
Long-term debt due within one year (note 10)	**13,403**	85,888
	68,073	139,983
Long-term debt (note 10)	**226,586**	181,738
Deferred income taxes	**2,568**	2,678
Shareholders' equity (note 11):		
Capital stock	**177,757**	176,418
Contributed surplus	**4,784**	4,784
Deficit	**(92,278)**	(119,102)
Equity adjustment from foreign currency translation	**(2,203)**	(4,866)
	88,060	57,234
Commitments and contingencies (notes 10(b) and 13)		
	$ 385,287	$ 381,633

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Isadore Sharp
Director

Benjamin Swirksy
Director

Consolidated Statements of Cash Provided by Operations

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*	1996	1995
Cash provided by (used in) operations:		
Hotel Management Operations:		
Earnings before other operating items	$ 55,672	$ 51,751
Items not requiring an outlay of funds	1,260	681
Working capital provided by Hotel Management Operations	56,932	52,432
Hotel Ownership Operations:		
Earnings before other operating items	8,672	14,940
Items not requiring (providing) an outlay (inflow) of funds	(1,358)	710
Working capital provided by Hotel Ownership Operations	7,314	15,650
	64,246	68,082
Investment income	240	173
Interest paid, net	(20,768)	(25,576)
Current income tax expense	(1,730)	(3,393)
Change in non-cash working capital	1,673	(572)
Cash provided by operations	$ 43,661	$ 38,714

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*	**1996**	1995
CASH PROVIDED BY (USED IN):		
Operations	**$ 43,661**	$ 38,714
Financing:		
Long-term debt, including current portion:		
Issued	**54,455**	418
Repaid	**(98,463)**	(34,847)
Issuance of shares (note 11)	**1,339**	689
Other	**(46)**	(164)
Cash used in financing	**(42,715)**	(33,904)
Capital investments:		
Increase in long-term receivables	**(9,729)**	(33,992)
Decrease in long-term receivables	**10,171**	1,123
Disposal of long-term receivables (note 2(a))	**—**	13,154
Hotel investments	**(16,033)**	(13,773)
Disposal of hotel investments (notes 2(a) and 5(a) and (c))	**5,601**	65,689
Acquisition of hotel investments (note 5(a))	**(1,302)**	—
Purchase of fixed assets	**(1,342)**	(2,426)
Investment in trademarks, trade names and management contracts	**(5,083)**	(866)
Other assets	**(1,841)**	(2,292)
Cash provided by (used in) capital investments	**(19,558)**	26,617
Dividends	**(3,042)**	(3,130)
Increase (decrease) in cash	**(21,654)**	28,297
Increase (decrease) in cash due to unrealized foreign exchange gain (loss)	**281**	(966)
Cash and cash equivalents, beginning of year	**36,767**	9,436
Cash and cash equivalents, end of year	**$ 15,394**	$ 36,767

See accompanying notes to consolidated financial statements.

Consolidated Statements of Deficit

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*	**1996**	1995
Deficit, beginning of year	**$ (119,102)**	$ (41,401)
Net earnings (loss)	**29,866**	(74,571)
Dividends	**(3,042)**	(3,130)
Deficit, end of year	**$ (92,278)**	$ (119,102)

See accompanying notes to consolidated financial statements

Years ended December 31, 1996 and 1995
(In thousands of dollars except per share amounts)

Four Seasons Hotels Inc. ("FSHI") is incorporated under the *Business Corporations Act* of the Province of Ontario and, through its subsidiaries, is engaged in the management of, and the investment in, hotel and resort properties throughout the world. (FSHI and its subsidiaries are collectively referred to as the "Corporation".)

At December 31, 1996, the Corporation managed 37 hotels and had various hotels under construction or development, of which the Corporation had an equity interest in 8 hotels under management and 1 hotel under construction. The Corporation earns management and other related fees under long-term management contracts based generally on a percentage of total revenues and operating profits of the managed hotels. A number of management contracts are subject to certain performance tests which, if not met, could allow a contract to be terminated prior to its maturity. The Corporation generally has various rights to cure any such defaults to avoid termination. In addition, certain management contracts are terminable by the hotel owner on a defined "change of control" of FSHI.

1. SIGNIFICANT ACCOUNTING POLICIES:

The Corporation's accounting policies and its standards of financial disclosure comply with accounting principles that are generally accepted in Canada. The significant accounting policies are summarized below:

(a) Principles of consolidation:

The Corporation consolidates all of its wholly-owned subsidiaries, including its primary operating subsidiaries—Four Seasons Hotels Limited and Regent International Hotels Limited ("Regent").

The Corporation proportionately consolidates its hotel joint venture, The Ritz-Carlton Hotel Chicago (25%) and until its disposition on December 15, 1995, the Corporation also proportionately consolidated its hotel joint venture, the Four Seasons Hotel London (50%) (note 5(d)).

Effective December 30, 1996, the Corporation consolidated its 100% interest in FRC Properties Partnership ("FRC Properties"), which holds the leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York (note 5(a)).

(b) Accounting for investments in hotel partnerships and corporations:

Until December 30, 1996 (note 5(a)), the Corporation accounted for its investment in loans and mortgages receivable and the capital of FRA Properties on the cost basis because the percentage ownership and structure did not give the Corporation significant influence over FRA Properties.

Investments in other partnerships and corporations that own or lease the following hotels are accounted for by the cost method because the percentage ownership and structure does not give the Corporation significant influence over these investments:

Operating hotels:	
The Regent Hong Kong	25%
Four Seasons Hotel Berlin	*
Four Seasons Hotel Washington D.C.	15%
Four Seasons Hotel Chicago	7.7%
Four Seasons Olympic Hotel Seattle	3.35%
Under construction:	
Four Seasons Resort Aviara	7.33%

* See note 13(c)(iv)

The Corporation recognizes revenue on its investment in these partnerships and corporations when profit distributions are receivable from the partnerships or corporations.

In the event of a decline in value of an investment in the equity of a hotel partnership or corporation that is other than temporary, the investment is written down to the estimated recoverable amount.

(c) Translation of foreign currencies:

Foreign currency balances of the Corporation and of foreign operations designated as integrated are translated into domestic currencies at the rates of exchange on the balance sheet date for monetary items, and at the rates of exchange on the date of transaction for non-monetary items. Revenues and expenses are translated at the rates in effect during the year. The resulting gains or losses are included in the determination of net earnings, except for gains or losses related to monetary items that are designated as hedges of investments in self-sustaining foreign operations, which are deferred and included in a separate component of shareholders' equity.

The financial statements of foreign investments, which are designated as self-sustaining operations, are translated into Canadian dollars as follows:

(i) Assets and liabilities at rates of exchange on the balance sheet date.

(ii) Revenue and expense items at average rates of exchange in effect during the year.

The resulting exchange gains and losses are deferred and included in a separate component of shareholders' equity.

(d) Capital assets:

Land, buildings, furniture, fixtures, equipment and leasehold interests and improvements are recorded at cost less accumulated depreciation and amortization.

Hotel operating equipment which includes linen and tableware is valued at the lower of average cost and replacement cost, and is charged to operations as consumed.

The cost of hotel management contracts acquired as part of the acquisition of Regent in 1992 represents the present value of the estimated future net cash flows expected to be received over the estimated lives of the contracts.

The cost of trademarks and trade names represents the estimated fair value of the "Regent" trademark and trade name at the date of the Regent acquisition, and the cost of registering the "Four Seasons" and "Regent" trademarks and trade names throughout the world.

(e) Depreciation and amortization of capital assets:

Depreciation of buildings is recorded on a straight-line basis over 40 years.

Depreciation of furniture, fixtures and equipment is recorded on a straight-line basis at rates which will fully depreciate the assets over their estimated useful lives. The estimated composite useful lives for furniture, fixtures and equipment range from 5 to 10 years.

Amortization of leasehold interests and improvements is recorded on a straight-line basis over the term of the lease.

The costs allocated to trademarks and trade names are being amortized on a straight-line basis over a 40-year period.

The costs allocated to the hotel management contracts acquired as part of the Regent acquisition are being amortized on a straight-line basis over the remaining terms of the contracts, which ranged from 8 to 40 years, with an average of 27 years, at the date of acquisition.

The recoverability of the unamortized cost of trademarks, trade names and hotel management contracts is periodically evaluated to determine whether such costs will be recovered from future operations. The Corporation bases these evaluations upon the projected future fee stream on an undiscounted basis. If the undiscounted fee streams are insufficient to recover the remaining net book value, then the undiscounted fee stream is used as the revised carrying value, and a write-down for the difference is recorded as a charge to amortization expense. Events that cause impairment to individual hotel management contracts, such as termination or sale, result in write-offs as the events occur.

(f) Deferred charges:

The Corporation defers development costs directly relating to the negotiation, structuring and execution of new hotel contracts. When the hotel is opened, these deferred charges are reclassified to "Investment in management contracts." If the project is abandoned, any deferred charges are written off. The deferred charges associated with new management contracts developed by the Corporation are amortized on a straight-line basis over a 10-year period commencing when the hotel is opened.

(g) Cash and cash equivalents:

The Corporation's investments in cash and cash equivalents are highly liquid, with maturities of less than 30 days. These investments are bank deposits and guaranteed investment certificates with the Corporation's primary banker.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(i) Earnings (loss) per share:

Earnings (loss) per share is based on the weighted average number of Variable Multiple Voting Shares and Limited Voting Shares ("LVS") outstanding during the years (note 11(a)). Conversion of outstanding options to purchase LVS is not dilutive.

(j) Change in accounting policy:

During 1996, the Corporation retroactively adopted the recommendations of Section 3025 of the Canadian Institute of Chartered Accountants' Handbook—"Impaired Loans." The impact of this change was to reclassify to long-term receivables a provision against a loan receivable from a managed hotel (note 4(d)), which was originally recorded in 1995 (note 2(b)) as a contingent liability relating to the Corporation's real estate risks. This change had no impact on net earnings (loss) in 1995 or 1996.

2. Dispositions, Acquisitions and Provision for Loss on Hotel Partnerships:

(a) Hotel dispositions and acquisitions:

(i) During 1995, the Corporation completed the sale of its 50% interest in the Four Seasons Hotel London to Kingdom 5-KR plc, an affiliate of Kingdom Investments Inc. ("Kingdom"), which is a 26% shareholder of FSHI, for proceeds of £12.6 million ($26,611) by way of a cash flow bond (note 4(a)). In addition, and in connection with this transaction, the Four Seasons Hotel London repaid debts owing to the Corporation. The total cash received by the Corporation, net of commissions and costs of disposition, was $34,687.

(ii) During 1995, the Corporation closed the sale of its mortgages on the Four Seasons Clift Hotel San Francisco and received cash proceeds (net of commissions and other costs of disposition) of $13,154.

(iii) In 1992, in connection with the acquisition of Regent, the Corporation and Hotel Investment Corporation ("HIC") contributed their ownership and leasehold interests in 10 hotels to a group of related partnerships (referred to collectively as "FRA Properties"). Since that time, FRA Properties has sold its ownership interests in all the properties that were contributed (other than the 100% leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York), including the hotels contributed to FRA Properties by the Corporation which are discussed in the following paragraphs.

During 1995, FRA Properties completed the sale of the Four Seasons Biltmore Resort Santa Barbara and the Corporation received cash proceeds (net of commissions and other costs of disposition) of $4,391. The Corporation was also released from its guarantee of US$6,250 of the principal amount of the mortgage debt, up to US$15,000 as to interest and operating expenses, and certain other guarantees relating to the hotel.

In January 1996, pursuant to an agreement reached in late 1995, FRA Properties completed the sale of the Inn on the Park Toronto. All proceeds of this sale were used to reduce the debt related to this hotel, which was guaranteed by the Corporation.

In November 1996, FRA Properties entered into an agreement to sell its leasehold interest in the Four Seasons Hotel Toronto. The transaction closed in January 1997, at which time the Corporation received cash proceeds, net of costs of disposition, of $13,000 (note 3).

In 1996, FRA Properties also completed the sales of its investments in the Four Seasons Hotel New York, the Four Seasons Hotel Milan and the Regent Fiji. The Corporation received no proceeds from these dispositions.

Effective December 30, 1996, the Corporation transferred its 19.9% limited partnership interest in FRA Properties to HIC, and acquired 100% of FRC Properties, which holds the leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York. In addition, as at December 31, 1996, FRC Properties held a long-term receivable relating to the sale of the Inn on the Park Toronto, a residual interest in certain property adjacent to the Inn on the Park Toronto, and owed $12,600 to a Canadian chartered bank (previously secured by the Inn on the Park Toronto and which was guaranteed by the Corporation). This bank loan was fully repaid by FRC Properties in January 1997.

In early 1996, HIC notified the Corporation that it considered that the Corporation had not complied with certain terms of the FRA Properties partnership agreement and asserted certain claims against the Corporation. The agreement pursuant to which FRA Properties was transferred to HIC and FRC Properties was transferred to the Corporation settled all outstanding claims made by HIC against the Corporation.

(iv) In November 1996, the Corporation completed the sale of its minority ownership interest in the Four Seasons Resort Nevis for proceeds of $2,101.

In connection with this sale, the Corporation executed an amended hotel management contract with the new owner of the hotel that provided for enhanced management fees (both basic and incentive fees) and a longer term compared to the predecessor contract. In addition, the Corporation's loan to the former owner of the hotel of US$3,000 plus accrued interest was settled (note 4(b)), and the Corporation contributed US$4,732 to the former owner as the Corporation's share of the funds necessary to discharge the mortgage on the property.

(v) As a result of the above dispositions, the Corporation retained the long-term management contracts for the Four Seasons Hotel London, the Four Seasons Biltmore Resort Santa Barbara, the Four Seasons Hotel New York, the Four Seasons Hotel Milan, the Four Seasons Hotel Toronto, and the Four Seasons Resort Nevis; and the management contracts were terminated for the Four Seasons Clift Hotel San Francisco, the Inn on the Park Toronto and the Regent Fiji.

(b) Provision for loss on hotel partnerships:

In December 1995, the Corporation reviewed the current status and operating results of the three remaining hotels then held through its investment in FRA Properties (Vancouver, Toronto and The Pierre New York, each of which is a leasehold interest). In light of adverse developments with the landlords at each hotel, the Corporation concluded that it was unlikely that it would recover all of its investment in these hotels over the remaining initial terms of these leases. The Corporation also reviewed the current status of certain other hotel related real estate risks.

Based on this review, the Corporation concluded that it was necessary to record a provision for loss on these hotel investments and related assets in 1995 of $95,000 in order to write these investments and related assets down to their estimated net recoverable value, and to provide for likely losses on debt guarantees and lease commitments relating to these hotels.

3. Receivables:

	1996	1995
Trade accounts of consolidated hotels (note 5(a))	**$ 9,803**	$ 1,007
Receivable from hotel partnerships, affiliates and managed hotels	**17,994**	14,176
Receivable from sale of hotel investment (note 2(a)(iii))	**13,000**	—
Other	**10,415**	6,388
	$ 51,212	$ 21,571

Receivables at December 31, 1996 are recorded net of an allowance for doubtful accounts of $2,815 (1995 – $2,627). The bad debt expense for the year ended December 31, 1996 was $225 (1995 – $300).

4. Long-term receivables:

	1996	1995
Secured cash flow bond, due 2005, interest at 10%, £12.6 million (a)	**$ 29,377**	$ 26,611
Secured loans:		
Due from directors, officers and employees, non-interest bearing notes and mortgages	**5,024**	3,817
Secured by a hotel property, interest at US prime (1995 – US$3,494) (b)	**—**	4,771
Secured by a hotel property sold (c)	**7,000**	—
Unsecured loans:		
To managed hotels, non-interest bearing loans, US$5,020 (1995 – US$8,196) (d)	**6,883**	11,167
	48,284	46,366
Less allowance for doubtful long-term receivables (d)	**(6,855)**	(6,813)
	$ 41,429	$ 39,553

(a) The cash flow bond was received by the Corporation in 1995 as consideration for the sale of the Four Seasons Hotel London (note 2(a)). Principal and interest on the bond is payable out of the purchaser's 50% portion of the available cash flow (as defined in the bond indenture) from the hotel. The bond is secured by the purchaser's investment in the hotel. Interest income from the bonds has been fully accrued in 1996, as the Corporation believes there is reasonable assurance the interest will be received in March 1997.

(b) The loan secured by a managed hotel was composed of US$3,000 in principal and accrued interest of US$494. The loan was settled in 1996 in connection with the sale of the Corporation's equity interest in the hotel (note 2(a)(iv) regarding settlement of the loan to the Four Seasons Resort Nevis). The loan was interest bearing and payable out of operating cash flow from the hotel or on the sale or refinancing of the hotel or upon termination of the relevant management contract.

(c) FRC Properties received a promissory note relating to the sale of the Inn on the Park Toronto (note 2 (a)(iii)). The note has a face value of $10,000, bears interest at 9% per annum and is repayable over the period to January 17, 2001. At maturity, the debtor has the option to extend the note for a further five years, and the debtor has the option to pre-pay any or all of the principal and interest outstanding, without penalty, at any time. If the debtor achieves specified capital spending targets at the hotel, the interest rate is reduced. The Corporation believes that the debtor will likely achieve these capital spending targets; therefore, the note has been recorded at a discounted amount, using a rate of interest that takes into account the risks associated with the note.

(d) As at December 31, 1996 and 1995, the Corporation had advanced a total of US$5,000 to the owner of The Regent Hotel Jakarta which opened in late 1995. This loan is unsecured, non-interest bearing, and convertible into a 5% equity interest in the hotel, subject to regulatory approval. If the loan is not converted into equity of the hotel, the loan is repayable in full on December 14, 2003. The Corporation recorded a provision against this loan in 1995 in connection with its review of its real estate related risks (notes 1(j) and 2(b)).

The Corporation is required to estimate the realizable amounts of long-term receivables where the Corporation no longer has reasonable assurance of timely collection of the full amounts of principal and interest contractually due. This estimate depends upon the Corporation's assessment of the profitability of the hotels and the credit worthiness of the hotels' owners, which in turn, depends on the Corporation's assumptions regarding the general economic conditions in the hospitality industry and the countries and cities in which the hotels are located. Should the Corporation's underlying assessments and/or assumptions change, the estimated realizable amount of long-term receivables could change by a material amount.

Changes in the allowance for doubtful long-term receivables consist of:

	1996	1995
Balance, beginning of year	**$ 6,813**	$ 30,978
Reclassification of provision (note 1(j))	**—**	6,813
Write-offs	**—**	(29,382)
Recoveries	**—**	(901)
Other adjustments	**42**	(695)
	$ 6,855	$ 6,813

The only impaired long-term receivable identified by the Corporation at December 31, 1996 and 1995 is discussed in item (d) above. No interest income was recognized on impaired long-term receivables in 1996 or 1995.

5. INVESTMENTS IN HOTEL PARTNERSHIPS AND CORPORATIONS:

	1996	1995
FRA Properties (a)	**$ —**	$ 16,500
The Regent Hong Kong (b)	**17,170**	19,644
Other hotel partnerships and corporations (c)	**45,554**	40,047
	$ 62,724	$ 76,191

(a) Investment in FRA Properties:

In November 1996, FRA Properties sold its interest in the Four Seasons Hotel Toronto for $13,000 (note 2(a)(iii)).

The Corporation has accounted for the exchange of its partnership interest in FRA Properties for a 100% partnership interest in FRC Properties (note 2(a)(iii)) as a non-monetary exchange of assets that does not represent the culmination of the earnings process. Accordingly, no gain or loss was recognized on this transaction, and the net book value of the Corporation's investment in FRA Properties as at December 30, 1996 of $3,500 has been allocated to the assets and liabilities of FRC Properties, which includes leasehold interests in the Four Seasons Hotel Vancouver and The Pierre New York, as follows:

Current assets (including cash of $2,198)	$ 14,265
Long-term receivables	7,000
Investment in residual interest in land	2,500
Operating equipment	1,810
Other assets	800
Accounts payable and accrued liabilities	(10,275)
Long-term debt due within one year (note 2(a)(iii))	(12,600)
Net assets assumed	$ 3,500

(b) Investment in The Regent Hong Kong:

The Corporation has a 25% leasehold interest in The Regent Hong Kong. The initial term of the leasehold terminates in December 2000 with an option to renew for a further 10 years exercisable by the lessee. The Corporation amortizes the investment in The Regent Hong Kong on a straight-line basis over the remaining term of the initial leasehold. Amortization expense during the year was $2,585 (1995 – $2,639).

(c) Other hotel partnerships and corporations:

The Corporation has accounted for the disposition of its interest in the Four Seasons Resort Nevis (note 2(a)(iv)) as a non-monetary exchange of assets that does not represent the culmination of the earnings process. Accordingly, no gain was recognized on this transaction, and the excess of $7,601 of the net book value of the Corporation's investment in the hotel over the cash proceeds received has been reclassified to "Investment in management contracts" (note 7). Management believes that the incremental fair value of the amended management contract exceeds the amount reclassified.

(d) Investment in hotel joint ventures:

The Corporation's proportionate interest in the assets and liabilities of The Ritz-Carlton Hotel Chicago, which is proportionately consolidated in these financial statements as at December 31, 1996 and 1995, is summarized as follows:

	1996	1995
Current assets	$ 4,205	$ 2,580
Long-term assets	21,956	22,563
	26,161	25,143
Current liabilities	(3,532)	(3,082)
Long-term debt	(10,283)	(10,219)
	(13,815)	(13,301)
	$ 12,346	$ 11,842

The Corporation's proportionate interest in the revenues and expenses of: (i) The Ritz-Carlton Hotel Chicago for both 1996 and 1995, and (ii) the Four Seasons Hotel London for the period January 1, 1995 through to the date of sale on December 15, 1995 (note 2 (a)), which are proportionately consolidated in these financial statements for the years ended December 31, 1996 and 1995, is summarized as follows:

	1996	1995
Revenues	**$ 17,606**	$ 42,398
Expenses	**(15,080)**	(33,996)
	$ 2,526	$ 8,402

(e) Estimates of recoverable amounts of investments:

The estimates of recoverable amounts of these investments depend upon assumptions regarding general or local economic conditions, local real estate market conditions, property and income taxes, interest rates and the availability, cost and terms of financing, the impact of present or future legislation or regulation, and other factors affecting the profitability and saleability of the hotels. These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of recoverable amounts are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated recoverable amounts could change by a material amount.

6. FIXED ASSETS:

	1996			1995
	Cost	**Accumulated depreciation/ amortization**	**Net book value**	Net book value
Land	**$ 4,263**	**$ —**	**$ 4,263**	$ 4,243
Buildings	**21,910**	**(2,781)**	**19,129**	19,596
Furniture, fixtures and equipment	**18,456**	**(12,768)**	**5,688**	5,918
Leasehold interests and improvements	**4,039**	**(2,566)**	**1,473**	1,615
	48,668	**(18,115)**	**30,553**	31,372
Operating equipment	**2,597**	**—**	**2,597**	748
	$ 51,265	**$ (18,115)**	**$ 33,150**	$ 32,120

Depreciation and amortization expense for fixed assets was $2,265 (1995 – $4,880).

7. INVESTMENT IN MANAGEMENT CONTRACTS:

	1996	1995
Management contracts, at cost	**$ 127,527**	$ 115,550
Less accumulated amortization	**(29,090)**	(22,935)
	$ 98,437	$ 92,615

Amortization expense for management contracts was $6,769 (1995 – $6,989).

The recoverability of the unamortized cost of management contracts is periodically evaluated based on projected future fee revenues, net of expenses, from managed hotels. Management contracts expire or are terminated or renegotiated in the ordinary course of business. The recoverability of the Corporation's investment in management contracts depends on its ability to comply with the terms of existing contracts. In addition, the projection of future fee revenues from an individual management contract depends upon assumptions regarding

future conditions in the general or local hospitality industry, competition from other hotels, changes in travel patterns, and other factors that affect the hotel's gross operating revenue (which is the factor on which the Corporation's base fee revenues are normally based) and net operating profit (which is the factor on which the Corporation's incentive fee revenues are normally based). Should the underlying assumptions regarding the number and type of management contracts or the projection of fee revenues from those management contracts change, total projected future fee revenues could change by a material amount.

8. Investment in Trademarks and Trade Names:

	1996	1995
Trademarks and trade names, at cost	**$ 68,742**	$ 67,509
Less accumulated amortization	**(8,743)**	(6,601)
	$ 59,999	$ 60,908

(a) Disposition of "Regent" trade name:

In December 1996, the Corporation entered into a binding letter of intent with Carlson Hospitality Worldwide ("Carlson") pursuant to which Carlson has agreed to acquire the rights to the "Regent" name for new development. The Corporation will continue to operate and manage the existing Regent hotels. The Corporation will be entitled to receive payments from Carlson calculated, beginning in 1998, as a percentage of the gross royalty revenue of the new development effort.

The portion of the net book value of the Corporation's investment in the "Regent" trade name that relates to royalty payments that the Corporation will continue to receive from the existing "Regent" hotels will be reclassified as "Investment in management contracts" and amortized over the terms of the related management contracts; and the portion of the net book value that relates to the rights transferred to Carlson will be deferred and amortized over the shorter of the term of the Carlson agreement and forty years.

(b) Recoverability of investment in trademarks and trade names:

The recoverability of the unamortized cost of trademarks and trade names is periodically evaluated based on projected future fee revenues, net of expenses, from existing and new management contracts, and from new franchise contracts executed by Carlson. Management and franchise contracts expire or are acquired, terminated or renegotiated in the ordinary course of the Corporation's and Carlson's business. The projection of future revenues in total therefore depends on the Corporation's assumptions regarding the number and terms of the hotel management and franchise contracts that are likely to be in force in the future, which depends on the Corporation's and Carlson's ability to compete for new management and franchise contracts and their ability to comply with the terms of existing and new contracts. In addition, the projection of future fee revenues from an individual management or franchise contract depends upon assumptions regarding future conditions in the general or local hospitality industry, competition from other hotels, changes in travel patterns, and other factors that affect the hotel's gross operating revenue (which is the factor on which the Corporation's base management fee revenues and Carlson's franchise fee revenues are normally based) and net operating profit (which is the factor on which the Corporation's incentive management fee revenues are normally based). Should the underlying assumptions regarding the number and type of management and franchise contracts or the projection of fee revenues from those contracts change, total projected future fee revenues could change by a material amount.

(c) Amortization expense:

Amortization expense for trademarks and trade names was $2,094 (1995 – $1,999).

9. OTHER ASSETS:

	1996	1995
Bonds and debentures	**$ 2,744**	$ 2,727
Cash surrender value of life insurance policies (a)	**10,485**	10,574
Deferred development costs	**1,969**	1,991
Deferred financing costs	**2,708**	3,461
Other deferred costs	**1,782**	1,735
	$ 19,688	$ 20,488

(a) These policies insure the lives of senior executives and are designated to finance pension benefit obligations for these individuals (note 13(b)). These policies are held directly and indirectly by the Corporation.

10. LONG-TERM DEBT:

	1996	1995
Unsecured notes (a)	**$ 147,383**	$ 156,688
Bank credit facility (b)	**54,155**	—
Unsecured debentures (c)	**—**	66,503
Cross-currency swaps (c)	**—**	18,529
Mortgage (d)	**10,283**	10,219
Bank loan (note 2(a)(iii))	**12,600**	—
Other long-term liabilities	**15,568**	15,687
	239,989	267,626
Less amounts due within one year (note 2(a)(iii))	**(13,403)**	(85,888)
	$ 226,586	$ 181,738

(a) Unsecured notes:

The unsecured notes, with a face value at December 31, 1996 of US$107,500 (1995 – US$115,000), were issued on June 30, 1993 at a discount for US$114,270, and are due on July 1, 2000. The notes bear interest at 9-1/8%, payable semi-annually, and are redeemable at the option of the Corporation, in whole or in part, at any time on or after July 1, 1998, at redemption prices provided for in the indenture. The Corporation repurchased notes with a face value of US$7,500 during 1996, and US$1,000 in January 1997. The notes purchased have been cancelled by the Corporation.

(b) Bank credit facility:

The Corporation has a US$100,000 committed bank credit facility which matures in March 1998. As at December 31, 1996, US$39,500 (1995 – nil) had been borrowed by the Corporation under this credit facility. This credit facility was used to redeem a portion of the unsecured debentures which matured on March 25, 1996 ((c) below). Borrowings under this credit facility bear interest at LIBOR plus 1/2% and are secured by a charge over virtually all of the Corporation's Canadian assets.

The balance outstanding under the bank credit facility was repaid from the proceeds of the equity issuance that the Corporation completed on February 12, 1997 (note 11(b)).

(c) Unsecured debentures:

The unsecured debentures, which matured on March 25, 1996, were issued for $100,000 at 11.05% on March 25, 1991. Interest was payable semi-annually. The Corporation redeemed $33,497 of the unsecured debentures in 1995 and redeemed the remaining $66,503 at maturity in 1996.

The unsecured debentures were converted through two cross-currency interest rate swap agreements (the "swaps") into US$86,994, of which US$43,497 bore interest at 9.37% and US$43,497 bore interest at LIBOR plus 0.986%. As at December 31, 1995, the Corporation owed a net balance of $18,529 under the swaps, consisting of US$86,994 translated at $1.3625 into $118,529, owing to the counterparty to the swaps, less $100,000 due from the counterparty under the swaps. The net amount owing under the swaps at March 25, 1996 was repaid by the Corporation.

The swaps had been designated as hedges of the Corporation's investments in US self-sustaining foreign operations and certain US dollar long-term receivables (note 4). The counterparty to these swaps was the Corporation's primary banker, and the swaps presented no credit risk to the Corporation as at December 31, 1995 as they had a negative fair value (i.e., the amount at which they could be settled) of $17,740.

(d) Mortgage:

This amount represents the Corporation's proportionate share of a mortgage on The Ritz-Carlton Hotel Chicago. US$7,500 was due in 1997, and bore interest at the lower of LIBOR plus 2% and US prime plus 1%. The Corporation had jointly and severally guaranteed US$3,000 of this proportionately consolidated debt.

In January 1997, the mortgage was refinanced and the Corporation's proportionately consolidated amount of the refinanced non-recourse mortgage will be US$11,250 in 1997. The refinanced mortgage will bear interest at rates ranging from the lower of LIBOR plus 1.50% and US prime plus 0.50%, up to the lower of LIBOR plus 2.25% and US prime plus 1.25%, depending on certain financial tests. The mortgage is due in 2002. As a result of the refinancing, the Corporation was released from its guarantee of US$3,000, and US$3,461 was distributed to the Corporation.

(e) Scheduled long-term debt repayments:

1997	$ 803
1998	832
1999	803
2000	146,815
2001	2,174
Subsequent to 2001	20,436
	171,863
Amounts repaid in 1997 from proceeds received from dispositions of hotel investments (note 2(a)(iii)) and equity offering (note 11(b))	68,126
	$ 239,989

(f) Interest expense, net:

	1996	1995
Interest on long-term debt	**$ (20,939)**	$ (26,129)
Other interest expense	**(1,493)**	(774)
Interest income	**3,665**	1,234
Interest expense, net	**$ (18,767)**	$ (25,669)

(g) Restrictive debt covenants:

The bank credit facility contains certain covenants which require the Corporation to maintain certain financial ratios. In addition, the bank credit facility and the trust indenture relating to the unsecured notes contain additional covenants which, in certain circumstances, restrict the Corporation's ability to borrow funds ranking superior to these obligations and undertake certain types of major transactions. The Corporation was in compliance with these covenants during 1996 and 1995. In addition, the unsecured notes and bank credit facility are callable in certain circumstances by the creditors on a change of control of FSHI.

11. SHAREHOLDERS' EQUITY:

(a) Capital stock:

Authorized:

4,171,924 Variable Multiple Voting Shares ("VMVS"), entitling the holder to that number of votes that results in the aggregate votes attaching to the VMVS representing approximately 67% of the votes attaching to the VMVS and the Limited Voting Shares ("LVS"), in aggregate, which, at December 31, 1996 was 12.01 votes per VMVS, and at February 12, 1997 (subsequent to the equity issue discussed in (b) below) was 14.15 votes per VMVS. Changes in the number of votes attaching to the VMVS necessary to maintain this level will occur concurrently with the issue of additional LVS.

The continued adjustment of the voting rights of the VMVS as a result of the issuance of LVS will be subject to ratification by the holders of the LVS every three years, commencing at the time of FSHI's annual meeting in 2000. If the maintenance of the adjustment mechanism is not confirmed by a simple majority of the votes cast by the holders of LVS (other than "prescribed holders" of LVS), any issue of LVS after that time (other than the issue of LVS pursuant to a right, option or similar obligation granted prior to that time) will not result in a further change in the number of votes attaching to the VMVS. Additionally, the continued application of the mechanism will be subject to ratification after any transfer of VMVS that results in a person other than a member of the family of Isadore Sharp holding VMVS or after Isadore Sharp ceases to be the Chief Executive Officer of FSHI.

The VMVS rank equally with the LVS as to distributions on liquidation, dissolution or winding-up of FSHI. Effective from October 3, 1996, dividends declared and paid on the VMVS will be in amounts per share equal to 50% of the dividends per share declared and paid on the LVS, regardless of whether the number of votes attaching to the VMVS is further increased.

VMVS are convertible into LVS on a one-for-one basis at the option of the holder. The shares automatically convert into LVS upon any transfer outside of the family of Isadore Sharp, except a transfer of a majority of the shares to a purchaser who makes an equivalent offer to purchase all outstanding VMVS and LVS.

Unlimited LVS, voting (one vote per share) and ranking equally with the VMVS as to distributions on liquidation, dissolution or winding-up of FSHI.

Unlimited First Preference Shares, issuable in series, non-voting and ranking prior to all other shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

Unlimited Second Preference Shares, issuable in series, non-voting and ranking prior to all other shares except the First Preference Shares with respect to payment of dividends and distributions on liquidation or winding-up of FSHI. The dividend rate, redemption and conversion rights, if any, are to be determined prior to issuance by the directors of FSHI.

In 1996, all outstanding Employee Preference Shares ("EPS") were converted to LVS at a rate of 2.14286 LVS per EPS.

Issued and fully paid:

	VMVS		LVS		EPS		
	Shares	Stated value	Shares	Stated value	Shares	Stated value	Total
December 31, 1994	4,171,924	$ 46	24,251,043	$ 174,764	61,293	$ 919	$ 175,729
Converted	—	—	1,044	7	(488)	(7)	—
Options exercised for cash	—	—	65,596	689	—	—	689
December 31, 1995	4,171,924	46	24,317,683	175,460	60,805	912	176,418
Converted	—	—	130,290	912	(60,805)	(912)	—
Options exercised for cash	—	—	106,990	1,339	—	—	1,339
December 31, 1996	**4,171,924**	**$ 46**	**24,554,963**	**$ 177,711**	**—**	**$ —**	**$ 177,757**

At the Special Meeting of Shareholders on December 19, 1989, the shareholders approved a Long-Term Incentive Plan whereby the chief executive officer of FSHI was granted the right to receive a special payment on an arm's length sale of control of FSHI (the "sale"). The amount of the payment is determined with reference to the sale price and the trading price of LVS on The Toronto Stock Exchange in the period preceding the sale. The right to receive the payment may be transferred among members of the officer's family, their holding companies and trusts.

At a Special Meeting of Shareholders on October 3, 1996, the shareholders approved FSHI's articles of amendment that limit the dilution of voting control that rested with the VMVS.

Under executive share option plans, eligible directors, executives and employees may be granted options to acquire LVS at a price which is not less than the weighted average price of board lots traded on The Toronto Stock Exchange in the five trading days preceding the date of grant. The options are not transferable, have a term of 10 years, and generally become exercisable in varying proportions on the first, second, third, fourth and fifth anniversaries of the date of grant. All such options become exercisable within specified periods in the event of retirement, termination other than for cause (including as a result of a change of control of FSHI), incapacity or death of the director, executive or employee. As at December 31, 1996, there were options outstanding on 2,456,554 LVS (1995 – 2,499,594 LVS) at prices varying between $7.00 and $26.68 per share. During 1996, 85,000 options (1995 – 409,725 options) were granted to officers and employees at prices ranging from $18.65 to $26.68 per share (1995 – ranging from $14.08 to $17.28 per share), 106,990 options (1995 – 65,596 options) were exercised for cash proceeds of $1,339 (1995 – $689), and 21,050 options (1995 – 3,000 options) were cancelled.

In addition, 248,572 options were granted in 1996 which are subject to shareholder approval. Subsequent to December 31, 1996, 19,331 options were exercised for proceeds to the Corporation of $243.

(b) Equity offering:

On February 12, 1997, FSHI completed the issuance of 4,370,000 LVS for gross proceeds of $122,360. The net proceeds from the sale of the LVS, after deducting estimated offering expenses and underwriters' commission, are estimated to be $114,000. The Corporation used approximately $49,000 of the net proceeds of the offering to repay all outstanding borrowings under the bank credit facility (note 10(b)) and intends to use approximately $38,000 to fund amounts to be advanced by the Corporation when it acquires the long-term management agreement for the Hotel George V in Paris (note 13(c)(v)). The balance will be used to provide additional liquidity and to fund expansion and for general working capital purposes.

(c) Equity adjustment from foreign currency translation:

The change in the equity adjustment from foreign currency translation is primarily caused by changes in the exchange rates used to translate the Corporation's net investment in self-sustaining foreign operations.

12. INCOME TAXES:

Income tax expense shown in the consolidated statements of operations varies from the amount computed by applying the combined Canadian federal and provincial tax rates as follows:

	1996	1995
Earnings (loss) before income taxes	**$ 31,826**	$ (70,688)
Items not subject to tax	**(3,700)**	(1,812)
Earnings (loss) subject to tax	**$ 28,126**	$ (72,500)
Expected Canadian federal and provincial statutory tax rate	**41.5%**	41.5%
Expected income tax recovery (expense)	**$ (11,672)**	$ 30,087
Reduction in income tax due to lower foreign tax rates	**4,089**	4,225
Provision not tax effected	**—**	(39,425)
Tax benefits of prior years losses	**5,685**	1,288
Other	**(62)**	(58)
Income tax expense	**$ (1,960)**	$ (3,883)

The tax benefits relating to the provision of $95,000 recorded in 1995 and the provision of $127,000 recorded in 1993 were not recognized in these financial statements. Approximately $75,000 of these provisions relate to transactions that have been realized and are available to be applied against future taxable income. The tax treatment of the remainder will not be determined until the underlying assets are disposed. The tax benefits of these provisions will be recorded in the year(s) in which the benefits are realized.

13. COMMITMENTS AND CONTINGENCIES:

(a) Lease commitments:

The Corporation has entered into lease agreements for certain hotel properties for periods up to the year 2017. The lease terms may be extended under renewal options for periods up to the year 2067.

Future minimum lease payments, exclusive of any contingent rentals and occupancy costs, are as follows:

1997	$ 11,787
1998	14,004
1999	15,306
2000	14,071
2001	14,560
Subsequent to 2001	152,796
	$ 222,524

The total lease commitments include the lease commitments relating to the Four Seasons Hotel Berlin which commence when the hotel is fully opened in 1997 (note (c)(iv) below). The total lease commitments also include the minimum rental payments relating to the remainder of the initial lease term for the Four Seasons Hotel Vancouver and The Pierre New York (3 years and 5 years respectively).

The Corporation has provided a US$5,000 letter of credit to support its obligations under the lease at The Pierre New York.

(b) Pension commitments:

The Corporation maintains a multi-employer non-contributory defined benefit pension plan (the "Plan") on behalf of the Corporation and the owners of certain managed hotels. The Plan provides pension benefits for certain senior executives of the Corporation and hotel general managers, based on years and level of service and annual salary.

Extrapolation of the actuarial valuation of the Plan dated January 1, 1996, based on projections of employees' compensation levels to the date of retirement, indicate an actuarial value of accumulated Plan benefits as at December 31, 1996 of $21,095 for 57 participants, of which the Corporation's share was approximately $12,339 for 24 participants. These benefits are financed by life insurance policies on the lives of each of the participants in the Plan. The Corporation's share of the cash surrender value of the policies as at December 31, 1996 was $10,485 (note 9).

In addition, the Corporation maintains an unfunded, non-contributory deferred compensation plan for the purpose of providing retirement benefits for certain other hotel general managers.

(c) Contingencies:

(i) The Corporation estimates and accrues for the losses, if any, it is likely to incur relating to uninsured contingent liabilities such as guarantees of third party debt, environmental matters, personal injury and property damage at owned or managed hotels, workers compensation claims, etc. The Corporation's assessment of its potential liability for such matters could change, with the result that the accruals for contingent liabilities recorded in the Corporation's financial statements could increase by a material amount.

(ii) The Corporation is contingently liable for some or all of the obligations of certain of the managed hotels and/or partnerships and joint ventures in which it has a direct interest (note 5). However, against this contingent liability, the Corporation would have a claim upon the assets of the partnerships and joint ventures and, in certain limited cases, their partners.

(iii) The Corporation has guaranteed up to US$5,000, plus accrued interest, of the construction loan relating to the Four Seasons Resort Aviara. The Corporation has provided additional guarantees in connection with the vacation ownership development at the Four Seasons Resort Aviara. One such guarantee was entered into to afford lenders to the vacation ownership project access to distributions that would be received by the Corporation in respect of its ownership interest in the resort after default in respect of debt related to the vacation ownership development.

(iv) The Corporation has a 23% investment in the company that owns and is constructing a multi-use project in Berlin that includes the Four Seasons Hotel Berlin, as well as commercial, residential and retail space. The Corporation has guaranteed up to DM 7 million, plus accrued interest, of the construction loan relating to the multi-use project. The Corporation has entered into an operating lease in connection with the management of the hotel. Under the terms of the hotel lease, once the hotel is fully opened (which is expected in 1997), the lease for the hotel will be transferred to the Corporation, which will begin accounting for its investment on a consolidated basis at that time.

(v) Following the acquisition by an affiliate of Kingdom of the Hotel George V in Paris and following an extensive renovation programme, the Corporation expects that it will manage the hotel pursuant to a long-term management agreement. When it enters into the long-term management agreement of the hotel, the Corporation has agreed to advance a loan to an affiliate of Kingdom in the amount of £15 million (approximately $34,000). The Corporation has also agreed to advance an additional £2 million (approximately $4,000) in connection with the costs of the repositioning and relaunch of that hotel. The Corporation will account for these loans as an investment in management contracts

and will amortize these loans over 40 years. These loans will pay or accrue an amount equal to approximately £1 million (approximately $2,000) per annum and be repaid in accordance with an agreed upon formula if the management agreement is terminated for any reason.

(vi) Until 1982, the Corporation held a co-ownership interest in an office building in Toronto. In 1981, the co-owners obtained financing of approximately $22,000 (of which approximately $20,600 was outstanding as at December 31, 1996) in connection with the property and the Corporation provided a several guarantee with respect to the financing. The Corporation sold its interest in the property to a Canadian insurance company in 1982 for consideration consisting of a cash payment and an assumption by the purchaser of the Corporation's obligations under the mortgage. The Corporation has been advised by the mortgagee that it anticipates a default under the mortgage. The Corporation believes that, as a result of, among other things, the sale by the Corporation of its interest in the property and the resulting obligations of the purchaser, any obligations of the Corporation to the mortgagee should be offset by corresponding claims against the purchaser.

(vii) In 1992, the Corporation received two notices that the owners of two managed hotels consider that the Corporation's acquisition of Regent, which manages a hotel in the same city, has breached the radius restriction in their respective management contract. Discussions with the owners with a view to resolving the issue are still continuing. No further action has been taken by either owner.

(viii) In the ordinary course of its business, the Corporation is named as defendant in legal proceedings resulting from incidents taking place at hotels owned or managed by it. The Corporation maintains comprehensive liability insurance and also requires hotel owners to maintain adequate insurance coverage. The Corporation believes such coverage to be of a nature and amount sufficient to ensure that it is adequately protected from suffering any material financial loss as a result of such claims.

(ix) The Corporation has guaranteed certain obligations of various directors, officers, and employees in the amount of $1,521.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. These estimates, although based on the relevant market information about the financial instrument, are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

As cash equivalents, current accounts receivable, current accounts payable and certain other short-term financial instruments are all short-term in nature, their carrying amounts approximate fair value.

The fair values of the Corporation's long-term receivables and long-term debt are estimated using discounted cash flow analysis which, for long-term debt, are based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements, and are as follows:

	Estimated fair value	Carrying amount
1996:		
Long-term receivables	**$ 41,000**	**$ 41,429**
Long-term debt	**245,000**	**239,989**
1995:		
Long-term receivables	39,000	39,553
Long-term debt	272,000	267,626

15. Segmented Information

(a) Total consolidated revenues:

	1996			1995		
	Hotel Management revenues	**Hotel Ownership revenues**	**Total consolidated revenues**	Hotel Management revenues	Hotel Ownership revenues	Total consolidated revenues
United States	**$ 53,807**	**$ 17,606**	**$ 71,413**	$ 47,061	$ 15,882	$ 62,943
Canada	**4,622**	**—**	**4,622**	5,253	—	5,253
United Kingdom and Europe	**4,276**	**33**	**4,309**	5,666	26,548	32,214
Asia	**24,499**	**9,174**	**33,673**	24,244	6,036	30,280
South Pacific	**7,525**	**—**	**7,525**	6,236	—	6,236
	94,729	**26,813**	**121,542**	88,460	48,466	136,926
Less intersegment revenues	**(831)**	**—**	**(831)**	(1,339)	—	(1,339)
	$ 93,898	**$ 26,813**	**$ 120,711**	$ 87,121	$ 48,466	$ 135,587

(b) Earnings (loss) from operations:

General and administrative expenses of the Hotel Management Operations have been allocated to specific geographic segments based on the percentage of revenues earned by the Hotel Management Operations in those geographic segments.

	1996			1995		
	Earnings (loss) before other operating items	**Other operating items**	**Earnings (loss) from operations**	Earnings before other operating items	Other operating items	Earnings (loss) from operations
United States	**$ 32,579**	**$ (5,169)**	**$ 27,410**	$ 27,909	$ (52,407)	$ (24,498)
Canada	**(1,094)**	**(328)**	**(1,422)**	1,269	(37,934)	(36,665)
United Kingdom and Europe	**1,675**	**(891)**	**784**	11,371	(13,800)	(2,429)
Asia	**25,624**	**(6,641)**	**18,983**	21,712	(6,837)	14,875
South Pacific	**5,560**	**(722)**	**4,838**	4,430	(732)	3,698
	$ 64,344	**$ (13,751)**	**$ 50,593**	$ 66,691	$ (111,710)	$ (45,019)

(c) Total assets:

	1996	1995
United States	**$ 158,225**	$ 140,155
Canada	**66,550**	78,553
United Kingdom and Europe	**39,593**	35,706
Asia	**111,818**	108,586
South Pacific	**9,101**	18,633
	$ 385,287	$ 381,633

General

On December 20, 1994, The Toronto Stock Exchange Committee on Corporate Governance in Canada issued a series of guidelines for effective corporate governance (the "Guidelines"). As a result, the by-laws of The Toronto Stock Exchange and of the Montreal Exchange have been amended to require disclosure on an annual basis of the approach to corporate governance by companies listed on such exchanges. The Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

The Board of Directors

The Board of Directors of FSHI (the "Board") acknowledges its statutory mandate to supervise the management of the business and affairs of FSHI. The Board, in fulfilling this mandate and discharging its duty of stewardship of FSHI, assumes responsibility for the following:

(a) reviewing and approving the strategic planning and business objectives that are submitted by management and working with management in the implementation of the strategic plan;

(b) the identification of the principal business risks for the Corporation and the implementation and monitoring of appropriate risk management systems, with the Audit Committee assisting the Board in the monitoring of the risks and reporting on these matters regularly to the Board;

(c) ensuring internal control and management information systems for the Corporation are in place and are evaluated as part of the internal auditing process and the external auditing process, and that they are also reviewed periodically by the Audit Committee, with the Audit Committee assessing the effectiveness of the internal control and management information systems through meetings held with the external auditors, as appropriate, and senior management and a review of reports prepared by senior management;

(d) assessing the performance of the Corporation's executive officers, including monitoring the establishment of appropriate systems for succession planning and for approving the compensation levels of such executive officers based on the recommendations of the Compensation and Organization Committee; and

(e) ensuring that the Corporation has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The Board is scheduled to meet five times a year and meets more frequently if required. During the 1996 fiscal year, the Board held eight meetings.

The Guidelines suggest that every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. The Guidelines suggest that the chairman of the board of directors should not be a member of management or alternatively that the board adopt equivalent procedures such as assigning the responsibility of ensuring that the board discharges its responsibility to a lead director or committee of the board. In this respect, the Corporation has adopted alternative structures to allow for the independence of the Board from Management, including certain non-management members of the Board meeting periodically as a group, the Board initiating discussions with senior management without the Chief Executive Officer present so that they may voice their concerns, and by the on-going monitoring of the relationship between the Board and management by the Corporate Governance Committee.

Another of the Guidelines recommends that the Board of Directors and the Chief Executive Officer should develop position descriptions for the Board and for the Chief Executive Officer that define the limits of management's responsibilities. In this regard, the Corporation has taken a different approach. The Board has adopted a job description and statement of functions for the Chief Executive Officer which delegates to him the day to day responsibility for directing the Corporation and for meeting the corporate objectives approved by the Board. The Chief Executive Officer reports formally to the Board, as well as informally through discussions

with one or more members of the Board to advise the Board on courses of action that have been taken. The Board exercises its responsibility for oversight through the approval of all significant decisions and initiatives. The Board is satisfied that the Chief Executive Officer has reported to and sought the consent of the Board where necessary and appropriate.

Board Composition

The Guidelines require careful consideration of the size, composition and relative independence of corporate boards. According to the Guidelines, an "unrelated" director is a director who is independent of management and is free from any interest and any business or other relationship that could, or could reasonably be perceived to, interfere materially with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. The Guidelines emphasize the ability to exercise objective judgement, independent of management, as a hallmark of an unrelated director.

The Board was expanded to 14 directors from 13 in March 1996. Two of the board members resigned in December 1996 and one vacancy was filled in January 1997. The Board believes that its size promotes effectiveness and efficiency and falls within the range suggested by the Guidelines. The Board, in conjunction with the Corporate Governance Committee, has determined, after reviewing the roles and relationships particular to each of the directors, that eight of the 14 directors of FSHI who served in the 1996 financial year were related. The directors who are considered to be unrelated are Mustafa I. Al-Hejailan (replaced by Simon M. Turner), Charles S. Henry, Murray B. Koffler, J. Robert S. Prichard, Benjamin Swirsky and Shuichiro Tamaki. While the Guidelines recommend that a corporation should be constituted with a majority of individuals who qualify as unrelated directors, the Board believes that it has and continues to function independently of management.

Mr. Isadore Sharp is a "significant shareholder" (as defined in the Guidelines) of FSHI since he controls shares carrying the ability to exercise a majority of the votes for the election of the Board. The Guidelines suggest that where there is a significant shareholder, the Board should include a number of directors who do not have interests in or relationships with either the Corporation or the significant shareholder and who fairly reflect the investment in FSHI by shareholders other than the significant shareholder. Six of the directors who served in the 1996 financial year are unrelated to the significant shareholder and are unrelated to the Corporation. The Board believes that, at present, this balance serves the Corporation's needs.

The Board has proposed that the articles of FSHI be amended to permit holders of Limited Voting Shares, as a class, to elect two members of the Board. If this amendment is approved by the shareholders of FSHI and articles of amendment are filed, commencing with the annual meeting of shareholders to be held in 1998, two members of the Board will be elected by holders of Limited Voting Shares.

The Board has three committees. These Committees are generally composed of outside directors, a majority of whom are unrelated directors. In this regard the Corporation complies with the Guidelines. The only member of management represented on a committee is the Chief Executive Officer, who sits on the Compensation and Organization Committee. The Chief Executive Officer is not present when matters relating to his own compensation are being discussed.

Committees of the Board of Directors

The Committees are appointed annually following the election of the Board of Directors at the Annual Meeting of Shareholders. In 1996, the Committees of the Board were as follows:

Audit Committee Members: Charles S. Henry, Murray B. Koffler, Lionel H. Schipper, Benjamin Swirsky (Chairman).

The Audit Committee has primary oversight responsibility for the Corporation's financial reporting, risk management and internal controls. The Committee has unrestricted access to the Corporation's personnel and documents and to the Corporation's external auditors. The Audit Committee reviews the annual financial statements and recommends their approval to the Board. The Audit Committee reviews the scope and planning of the external audit, the form of audit report and any correspondence from or comment by the external auditors regarding financial reporting and internal controls. Accordingly, the Corporation complies with the applicable Guidelines.

Compensation and Organization Committee Members: Charles S. Henry, Murray B. Koffler, Lionel H. Schipper (Chairman), Benjamin Swirsky, Isadore Sharp.

The Compensation and Organization Committee ensures that a process is in place to maintain the compensation program for the senior executive officers of the Corporation at a fair and competitive level. The Committee ensures that programs related to manpower planning, management development, succession planning, career path planning and performance evaluation are effectively integrated with the Corporation's strategy. The Committee reviews the compensation and remuneration of the Board. Accordingly, the Corporation complies with the applicable Guidelines.

Corporate Governance Committee Members: Charles S. Henry, Murray B. Koffler (Chairman), J. Robert S. Prichard, Lionel H. Schipper, Benjamin Swirsky.

The Corporate Governance Committee's mandate is to enhance the Corporation's corporate governance through continuing assessment and policy recommendations on the Corporation's approach to corporate governance. The Committee develops for the approval of the Board the report on the Corporation's corporate governance practices. The Committee determines suitable candidates for nominees as directors, periodically reviews the mandates of committees of the Board and assesses the effectiveness of the directors, oversees an orientation and education program for new recruits to the Board in order to familiarize them with the business of the Corporation, reviews the relationship between management and the Board, and assesses the Board's effectiveness as a whole. The Committee has also been granted the authority and direction to take such other initiatives as are needed to help the Board address corporate governance issues and to approve the engagement of independent advisors for individual directors at the expense of the Corporation, if the need should arise. Accordingly, the Corporation complies with the applicable Guidelines.

COMMUNICATING TO SHAREHOLDERS

The Board of Directors of FSHI is committed to an effective communications policy for the benefit of all stakeholders including shareholders, suppliers, guests, governmental authorities, employees and members of the investment community. In addition to its timely and continuous disclosure obligations under applicable law the Corporation maintains an Investor Relations Department and ensures that senior management are available to shareholders to respond to questions and concerns. Shareholder concerns are dealt with on an individual basis, usually by providing requested information. Material concerns and questions raised by shareholders to senior management are reported by senior management to the Board.

The Board has also adopted a policy for dealing with analysts and the financial press so as to ensure a dialogue between the investment community and the Corporation to facilitate the dissemination of information. The policy involves quarterly meetings with analysts conducted by senior management, with the Corporation's General Counsel involved, to the extent practicable, to ensure that the Corporation is complying with all applicable disclosure requirements.

Corporate Directory

Directors

Edmond M. Creed
Retired Executive

Frederick Eisen
President and CEO
The Eisen Corporation

H. Roger Garland

Charles S. Henry*+**
President
Hotel Capital Advisers, Inc.

Murray B. Koffler*+**
Partner
The Koffler Group

J. Robert S. Prichard**
President
University of Toronto

Lionel H. Schipper*+**
President
Schipper Enterprises Inc.

Isadore Sharp*

John L. Sharpe

Benjamin Swirsky*+**
President and CEO
Slater Industries Inc.

Shuichiro Tamaki
Advisor
Jowa Corporation

Simon M. Turner
Principal
Hotel Capital Advisers, Inc.

Christopher Wallis

* Member of Compensation and Organization Committee
\+ Member of Audit Committee
** Member of Corporate Governance Committee

Officers

Isadore Sharp
Chairman and
Chief Executive Officer

John L. Sharpe
President and
Chief Operating Officer

H. Roger Garland
Vice Chairman

Christopher Wallis
Executive Vice President

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer
and Treasurer

Craig O. Reith
Vice President, Finance
and Assistant Treasurer

John B. Richards
Executive Vice President

Kathleen Taylor
Executive Vice President,
General Counsel
and Secretary

Management Committee

H. Roger Garland
Vice Chairman

Wolf H. Hengst
President
Four Seasons Hotels,
Asia/Pacific

Douglas L. Ludwig
Executive Vice President,
Chief Financial Officer
and Treasurer

John B. Richards
Executive Vice President

Isadore Sharp
Chairman and
Chief Executive Officer

Anthony Sharp
Vice President
Vacation Ownership

John L. Sharpe
President and
Chief Operating Officer

Barbara Talbott
Senior Vice President, Marketing

Kathleen Taylor
Executive Vice President

Christopher Wallis
Executive Vice President

John W. Young
Senior Vice President
Human Resources

Area Vice Presidents

Antoine Corinthios
Eastern North America
and Europe

Charles J. Ferraro
Western North America,
Mexico and the Caribbean

Regional Vice Presidents

Stan Bromley
Washington D.C.

James G. Fitzgibbon
Dallas

Neil Jacobs
Singapore

Dieter Janssen
India

Peter G. Martin
Seattle

Nicholas Mutton
Chicago

John Stauss
London

Corporate Vice Presidents

James Cardy
Vice President Purchasing

David B. Crowl
Vice President Sales

Michael Duwaji
Vice President Controller

Stuart Fearnley
Vice President
Design and Construction

Meg Fisher
Vice President
Human Resources

Ivan Goh
Vice President Rooms

Susan J. Helstab
Vice President
Corporate Communications

H. E. (Duffy) Keys
Four Seasons Hotels
Asia/Pasific
Vice President
Sales and Marketing

Alfons E. Konrad
Vice President
Food and Beverage

George S. Lagusis
Vice President
Design and Construction

Roy A. Paul
Vice President
Development

Craig O. Reith
Vice President
Finance and Assistant Treasurer

James C. (Jay) Riley
Vice President
Hotel Marketing,
Americas and Europe

Corporate Offices

Four Seasons Hotels
and Resorts
1165 Leslie Street
Toronto, Ontario
Canada M3C 2K8
Telephone: (416) 449-1750
FAX: (416) 441-4374
www.FSHR.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Friday, May 23, 1997 in the Regency Ballroom, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario, Canada

Stock Listings

The Toronto Stock Exchange
The Montreal Exchange

Stock Ticker Symbol: FSH

The New York Stock Exchange
Stock Ticker Symbol: FS

Dividend Information

11 cents per annum (post-split basis) paid semi-annually in January and July

Transfer Agent and Registrar

Montreal Trust Company
Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

The Bank of Nova Scotia
Trust Co. of New York
New York

Auditors

KPMG

Shareholder Information

Please call Barbara Henderson, Director, Investor Relations at (416) 441-4329

Reservations Information

For reservations at
Four Seasons Hotels and Resorts,
please call toll-free:

(800)268-6282 in Canada
(800)332-3442 in the United States

For reservations at
Regent International Hotels,
please call toll-free:
(800)545-4000 in
Canada and the United States

Design: Bryan Mills & Associates

FOUR SEASONS
Hotels and Resorts